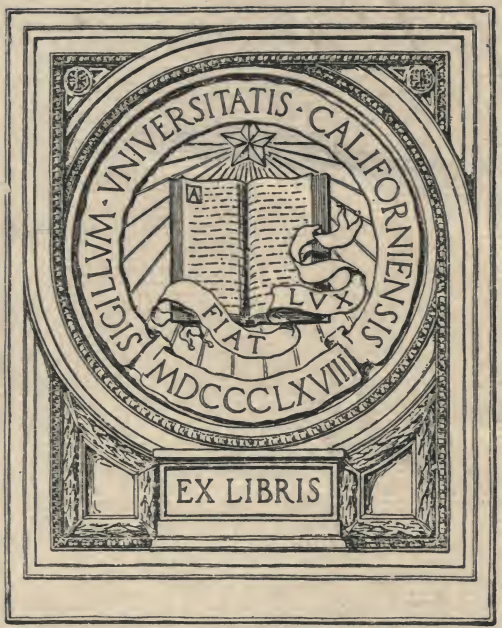
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MODERN WARS AND WAR TAXES

A MANUAL OF MILITARY FINANCE

BY

W. R. LAWSON

AUTHOR OF 'CANADA AND THE EMPIRE,' 'AMERICAN FINANCE,' 'AMERICAN INDUSTRIAL PROBLEMS,' 'BRITISH ECONOMICS,' 'JOHN BULL AND HIS SCHOOLS,' ETC.

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PREFACE.

RECENT discussions on armaments and kindred subjects have brought to light the curious fact that there does not exist in the English language a text-book of military finance. Every branch of military science has been diligently studied and exploited with this remarkable exception. So far as the writer is aware, no systematic attempt has yet been made to measure the financial strength of the great Military Powers. This book is the result of a modest endeavour to supply that defect.

Starting from the simplest and most essential form of the war problem, it shows that armaments are, in the present state of society, an unavoidable evil. It treats of sea power as the factor in the war problem which specially concerns the British people. What British arms have to defend and maintain at any cost is the British Empire. Not merely for our own sake,

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but for the sake of civilisation and humanity, that sacred trust has to be discharged. In order to be adequately fulfilled it must be clearly understood, but so far from this being the case, two of the principal elements in the matter—food and finance—are being left entirely to chance.

The general question having been outlined in Part I., the next section brings us to the actual military situation of the day. This is illustrated by an elaborate series of comparisons of the Military Powers in respect of (1) their revenues, (2) their expenditures, (3) their debts, and (4) their taxes. These statistical surveys reveal unsuspected points of weakness in some directions, and unsuspected elements of strength in others. British finance, always weak on the military side, is being continually weakened still further by the multitude of new obligations with which the State is saddling itself, as well as by the increasing taxation which these new obligations necessitate. On the other hand, certain Continental States have large reserves of non-fiscal revenue (railway earnings, proprietary income, and industrial profits), which may count for a good deal in a desperate trial of financial endurance.

In order to bring these comparisons to a point, the two greatest military budgets in the world—the British and the German—are analysed, so as

to show the terrible price which both countries are paying for their rival armaments. A still more terrible fact is the universal blindness that prevails regarding this aspect of the question. Instead of being horrified at their war expenditure and its ruinous growth, both nations seem to take a defiant pride in it. They appear to have set their minds on seeing who can hold out longest in the armament competition. Dangerous boasting on the subject is indulged in both at Westminster and Berlin.

In the debate on the third reading of the Finance Bill (1911)[1] the Chancellor of the Exchequer paraded once more his £11,300,000 a-year reduction of the National Debt, and asked if any Government of modern times could be named which had reduced its indebtedness by anything approaching that amount. Next day a semi-official organ of the Imperial Government, the 'North German Gazette,' capped Mr Lloyd George's boast with another and more significant one. It announced that "the finance reform of 1909," which was the German counterpart of the Lloyd George budget of that memorable year, had exceeded the highest hopes as a revenue producer. The ultimate yield of the new taxes, when they came into full operation, was, it said, estimated at £25,000,000, and at their present

[1] December 13, 1911.

rate of progress that level would soon be reached. In their first year (1910) they produced only £15,650,000, but this year there will be an increase of £3,210,000, raising the total yield to practically twenty millions sterling.

Evidently the Germans are getting more out of their Dreadnought taxes than we do out of ours. There has been no fiasco among them like Mr Lloyd George's new land taxes. Even more important than the multiplication of Dreadnoughts is the creation of new revenue to pay for them. This has an obviously important bearing on the comparative financial strength of the two rival Powers. Finance is bound to influence not merely their military plans but their whole foreign policy.

The time is past for diplomatists to fence with generalities about national honour, prestige, and spheres of influence. They are now finding themselves brought face to face with concrete questions of give and take. The Powers with the most formidable armaments and the strongest Exchequers will take most and give least. The military and financial factors in the case will speak for themselves and leave little or no room for diplomatic argument. The best foreign policy will be the one which indicates most clearly to the world at large what it considers to be its special and indefeasible rights, and

at the same time exhibits an adequate military and financial backing for them.

Probably the mission of the coming generation of international statesmen is to be a readjustment of disputed or disputable spheres. There may have to be a good many more "conversations" of the Agadir sort before international boundaries are finally arranged and universally accepted. Finance will play an important part in these readjustments — hardly less important, in fact, than it would have to play in actual war. The rattling of the purse may be as freely resorted to by diplomatists as the rattling of the sabre.

It is not the metallic purse alone that we shall have to rely on in future wars. A much more powerful though less reliable form of military finance proceeds from the skilful use of credit. The possibilities of international or cosmopolitan credit only begin to be appreciated. They are so vast and so complex that abstract thinkers like Mr Norman Angell may be excused for letting their imaginations run riot among them. The question whether international finance makes for peace or war will exercise expert financiers for years to come. Meanwhile abstract thinkers and emotional idealists would do well to leave it alone.

In the following pages copious illustrations

will be found of the influence of war and finance on each other in recent times. On careful study it will be seen that they give very little support to Mr Norman Angell's "Great Illusion" theory. They neither prove his thesis that modern war offers no economic advantages commensurate with its cost, nor do they show that even if the thesis were true it would have any practical value as a check on the warlike tendencies of the age. It is far too refined and obscure an argument to have much weight with the democratic assemblies who will be the chief war-makers of the future.

The author desires to thank the editors of 'The National Review,' 'The Bankers Magazine,' and 'The Empire Magazine' for their courtesy in permitting him to utilise contributions recently made by him to these periodicals. Chapter xvii. ("Consols at 77") is based on an article in 'The National Review' of October 1911; chapter xviii. ("The Disorganisation of Banking Securities") on an article in 'The Bankers Magazine' of the same month; and chapter xix. ("What our next Great War may Cost") on an article in 'The Empire Magazine.' They present the latest, and, I believe, most complete survey of British credit and banking in relation to war finance.

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SUMMARY OF CHAPTER I.

The final and inevitable problem of war. The rights and duties which civilised nations have to maintain at all hazards. Cobden's approval of a nucleus army for national defence. The new science of military finance. Is modern international finance to be a check on war or the reverse? The vital problems of modern war are armaments, food-supplies, and finance. Four hundred millions a-year spent on fighting machinery, which its owners are afraid to use. The costliest possible insurance against the most uncertain and incalculable danger. Armaments not to be put down by pacific crusades. Examples of the dangers against which forcible safeguards are indispensable: (1) The legitimate rivalry of nations; (2) New international combinations; (3) The large leaven of brute force still left in the world; (4) National jealousies and ambitions; (5) Racial upheavals in the Far East. Decisive battles the chief turning-points in history. The necessity for armaments does not justify reckless competition and expenditure on them. Navies more expensive than armies and subject to fewer limitations. Diplomatic control over armaments mythical. The younger Military Powers all want to "sit in the sun." Absence of definite foreign policy. Military innovations and improvements which may not stand the test of war. Our Crimean and South African blunders.

MODERN WARS AND WAR TAXES

PART I. PROBLEMS OF MILITARY DEFENCE

CHAPTER I. MODERN ARMAMENTS

In this book it will be the writer's earnest endeavour to present in the simplest possible form one of the greatest problems of the day and of many days to come. It will not be a military treatise propounding new views either of strategy or tactics. Neither will it be an ethical treatise discussing the righteousness or unrighteousness of war. Nor will it be a political treatise written in the interest of a Parliamentary faction. Least of all will it be a philosophical treatise professing to expound or to expose some "great illusion." It will be an unconventional all-round study of the war risks which the nations of the world are now confronted with, and which they have to fortify themselves against if they wish to remain independent and self-respecting nations.

The most elementary form to which the war problem can be reduced is this—What are the

fundamental rights which the most moral and peace-loving community would have to fight for in the last resort, no matter how hateful the fighting and all connected with it might be? In order to get down at once to bedrock we may ask—Is one's country worth fighting for against an invader? Outside of the Quakers, the Peace Society, and possibly some very advanced Socialists, every one will probably admit that it is. Even Mr Cobden, the most unqualified and implacable opponent of militarism, drew the line here. In a letter to a military friend,[1] written during the excitement of the Crimean War, he said—

> I must be allowed to say, in reference to your allusions to a regular standing army, that I am not opposed to the maintenance of a disciplined force to serve as a nucleus in case of war, around which the people might rally to defend their country. But there is hardly a case to be imagined or assumed in which I would consent to send out a body of land forces to fight the battles of the Continent.

Thus though Mr Cobden would have left India and the colonies to defend themselves, he would have tolerated a citizen army which confined itself to the defence of Kent and Lancashire. His modern disciples have gone considerably beyond that point. They have discovered that invasion would be as great a misfortune for the invaders as for the invaded, therefore they trust that correct, or rather corrected, views of war

[1] To Colonel Fitzmayer, 10th January 1855.

will in course of time definitely solve all our military difficulties. But, like the philosophic Socialists, they object to be hurried in the evolution of their coming millennium. It may, they admit, require generations or even centuries to mature. It is consequently of little use to us in a practical consideration of existing military conditions. It is more likely to hamper than to facilitate or accelerate the solution of even the simplest military problem.

This not being either a strategical or a political or an ethical treatise, the only other ground left for it to investigate is the financial and economic. Its special aim will be to elucidate, as far as available information admits, the new science of military finance. Closely associated with that is the question of feeding countries at war. In the great wars of former days it was only for the armies themselves that special feeding arrangements had to be made. But in future when a country goes to war which in time of peace grows food for only a fraction of its population, it will have to take the risk of five-sixths of its normal food-supply being suddenly cut off. This is a war risk of which no civilised State has hitherto had any practical experience. Moreover, it is a painful subject which they all appear to shrink from.

War finance is another modern complication of which every one but the pacific illusionists fights shy. The relations between our political, mili-

tary, and financial institutions form a vast field which is only beginning to be explored. That they ought to understand each other, and to work in harmony as far as the chaos of warlike operations may permit, is a proposition which requires no argument to support it. But the whole question is still in the most crude and provisional state. Such experience as exists is contradictory, and could not be acted upon with any degree of confidence. Two directly opposite sets of conclusions are already in the field—one which would have us believe that international finance is hereafter to operate as a check on war by rendering it economically unremunerative to both sides; and another which fears that the world-wide machinery of modern finance may in future be turned to account for military purposes.

The latter party agree that if the almost universal and omnipotent facilities furnished by international finance can adapt themselves to every kind of pacific industry or enterprise, why should not they be also available for military operations? War is a business of a special kind, and, like every other business, it requires working capital. There is no essential difference between the financing of a fleet in commission and that of a great shipping company. In both cases money is just as necessary as fuel — more so, indeed, as without money there could be neither ships nor guns nor fuel. Whether the requisite money be borrowed or raised in taxes, its fighting

value will depend on financial machinery so complex and widespread that not one politician in a hundred can have the faintest conception of it. Even Ministers of the Crown appear to be very shy of it, and not every Chancellor of the Exchequer would enhance his reputation by meddling with it.

In modern war there are three vital problems to be solved, and they cannot be solved separately. Armaments, food-supplies, and finance are integral parts of any war plan. They are essential and indispensable factors in any scheme of military operations. As such we now propose to examine them individually and in relation to each other. At first glance they appear to be quite separate and distinct problems, but they are closely interwoven and are destined to become even more so. Their inter-connection is particularly marked in Europe. The larger a proportion of their food-supplies which overcrowded European nations require to draw from over-sea sources the more important these over-seas countries will become, and the more will some sort of hold on them be coveted by the food-importing States. Another effect will be the increasing value of control over the great ocean highways.

But food-supplies are only part of the armaments problem. There are various other factors in it hardly less important or less easy of solution. On the face of it, what could be more stupendous folly than to spend nearly five hundred millions sterling a-year on fighting machinery which we

all hope will never be put to actual use? That is the costliest possible kind of insurance against the most uncertain and incalculable danger. Nevertheless all the principal Governments in the world have adopted this policy, and are pursuing it steadily, strenuously, unflinchingly. All the responsible statesmen uphold it in the teeth of Parliamentary opposition and denunciation. Politicians who have begun life as vehement naval economists, when they get into office immediately take up the universal cry that "the safety of the nation must be secured at any cost." Legislatures vote without a murmur, and with the merest pretence of discussion, army and navy estimates running from twenty millions to over seventy millions sterling a-year.

Most wonderful of all, taxpayers of all nations pay, with hardly a murmur, war taxes which have doubled and trebled themselves in a single lifetime.

If this be universal world-wide lunacy as peace at any price people consider it, the disease is likely to take a long while to cure. It is also to be feared that theoretical and academic remedies will not have much effect upon it in our time at least. The failure of so many attempted remedies for war-nerves is as remarkable as the growing intensity of the disease.

If protests, expostulations, and reproaches could have shaken mankind out of what the latest apostle of peace has styled the "Great

Illusion," it should have been done years ago. The crusade against "bloated armaments," which Richard Cobden began in Lord Palmerston's time, would have nipped modern militarism in the bud if it had been a mere matter of cost. But the comparative strength of armies and the comparative size of shipbuilding programmes are only one-sided details of the war problem. They are merely concrete symbols of historical issues, beneath which human passions and national ambitions are burning fiercely. To preach the wisdom of peace or the folly of war to a world agitated by such a conflict of emotions was, and is, beating the air. It was a premature attempt to silence a storm which had got to blow itself out. Instead of effecting any good, it has been invariably followed by more violent outbursts of war fever. This fact alone ought to be proof enough that the time has not yet come for lecturing nations out of their military illusions.

Armaments are not to be put down by pacific crusades. They rest on much too broad a foundation for that. They should be studied as one of the fundamental problems of modern civilisation. Critics who would judge them fairly and intelligently must put themselves in the place of the responsible rulers who, one and all, consider them a necessary evil. A moderate amount of historical knowledge may suggest various rational motives for even a peace-loving State to consider it a duty to be well armed in unsettled times like these.

Let us endeavour to recall a few of them, and to form a calm estimate of their aggregate weight and importance.

First.—The legitimate rivalry of nations was never so keen as it is at present. It is political, commercial, and financial all at the same time. It covets new markets and spheres of influence. It establishes new enterprises and creates national interests in all parts of the world. These enterprises and interests have to be jealously safeguarded, which they could not be without suitable armaments. The prolonged dispute which France and Germany had over Morocco showed how much value commercial States set nowadays on what used to be considered insignificant questions. The armaments of the two nations were a self-evident factor in the controversy. Had both nations been unarmed they probably could never have come to an agreement. And it is significant that neither of them ever suggested a reference to The Hague Court of Arbitration.

Second.—All States, and European States in particular, are more exposed than they ever were before to the formation of new combinations which may threaten their security and their international rights. The whole face of Europe has been changed in the past sixty years. Great Britain, the traditional enemy of France, and the rival of Russia throughout the East, is now ranged by their side against a triple alliance, consisting of her three ancient allies, Austria,

Prussia, and Italy. Powers like Spain and Turkey, who once shared the sovereignty of Europe, now live on the goodwill of their neighbours. In the Far East new Powers are arising which may in time challenge the supremacy of Germany herself. Modernised Japan, China, which is in the throes of modernisation, and India, which ere long may be making the same demand, are all entering the arena of international conflict. When the clash of Eastern and Western civilisations begins, is moral suasion likely to prove the best weapon for the occasion?

Third.—It has to be remembered, with all respect for modern civilisation, that there is still a large leaven of brute force in the world. It breaks out now and then in comparatively cultivated circles. It appears from recent experience to be pretty strong among British strikers, and if otherwise sensible, educated workmen can break loose, as Welsh miners and railwaymen sometimes do, what is to be expected from the lower grades of labour? If such disgraceful violence can happen under the eyes of British troops, how much more of it might there have been without the troops? And if we can have such outrages in professedly religious British communities, what could we expect from Kaffirs or Malays if they were free to run amok without any military check?

Hymn-books may be very good in their place, but the world is not sufficiently advanced for us

to be able to trust to them entirely. Wherever they have been tried they have not proved an adequate substitute for the big stick. Mankind being as they are, our rulers must needs provide scientific force as an antidote to brute force and a protection against it. In every country appeals to violence, instead of becoming less frequent as they ought to do as physical conditions improve, are becoming more frequent. By certain classes they are resorted to on the slightest pretext, and open war is declared against the most fundamental forms of civil authority. No civil police in their present form could possibly cope with such organised and avowed lawlessness. If they were made perfectly capable of it they would have ceased to be ordinary police, and they would have become a military force with a different name.

Fourth.—Ardent sentiments and ambitions inconsistent with peace still prevail among the nations generally, and especially among the Military Powers. The principle of nationality which the British people and their political leaders did so much to develop in the nineteenth century is still rampant in many countries. It kindled a series of momentous wars, and it has handed down to the present generation a heritage of warlike aspirations. These are still overwhelmingly strong in young nations like Italy. They are not empty diplomatic formula or matters of statecraft. We find them in the blood of the people, and they are not to be reasoned away. It makes

the Peace Court of The Hague look rather ridiculous, that all the time its founders were shaping and building it up as a perpetual barrier against war the Italians were secretly preparing an act of war, the most cynical and unprovoked that could be imagined. If Italian nationality can take such a desperate risk as the raid on Tripoli, what might not the Pan-Germans do in the same line if they had a sufficiently tempting chance? Or what might not the Japanese do if they had a free hand in the Pacific?

Fifth.—Are there not even greater questions than those of nationality which may not admit of pacific solution? In the gigantic world movements now going on, racial questions of supreme gravity are being forced to the front. China is alive with them, and Heaven knows what direction they will ultimately take, or how the future peace of the world may be affected by them. India is a powder-magazine full of them, and any day a lighted match may drop on it from somewhere. Then Moslem, Hindoo, and Sikh would be at each other's throats again. What would the world say to a British Government which for the sake of a few millions a-year allowed India to be plunged into anarchy and ruin?

Take a kindred case nearer home—that of Turkey. If Turkey's nearest neighbours were not all armed to the teeth, and ready to swoop down on any revolutionary movement which threatened to break up what remains of her

Empire, where would Constantinople soon be? But no European Power would have the slightest voice in deciding the fate of Constantinople who was not in a position to back it up with armed force. Egypt offers a still more striking example of the relative values of a word and a blow. Without the preliminary blow we could never have gained the footing in Egypt which has enabled us in a single generation to transform one of the worst governed countries into one of the best governed.

If those who are responsible for the world's armaments had nothing in their minds but the foregoing five considerations, they might deem themselves well justified in assuming that, under present conditions, and even under the best conditions which are likely to be experienced for years to come, trained and armed force of some sort will be indispensable to the safety of nations and of mankind. These, of course, are abstract arguments which might not weigh heavily with the average man if they could not be reinforced by something definite and concrete. For this purpose historical arguments are required, and there is no difficulty in finding them.

Savage and senseless as some of the world's great wars have been, this salient fact is indisputable, that decisive battles have been the chief turning-points in the world's history. It was Trafalgar and Waterloo that shaped the history of Europe in the first half of the nineteenth

century. For forty years they kept the peace, and imposed on a whole continent what our forefathers finely called "a truce of God." When the "truce of God" was once broken — and let us never forget that it was a peace-loving, war-hating British Cabinet which allowed it to fall to pieces in their weak hands—then another half century of war and armed tumult had to be gone through. A stronger Government in London might have kept the peace between Russia and Turkey in 1854, and prevented the Jingo spirit of the country being again let loose.

But candid recognition of the necessity of armaments does not necessarily approve of every feature of them as they now exist. Their proper size, their distribution, their administration, and their cost are all later questions. The strongest advocate of effective military defence may not be prepared to spend an unlimited amount of money on it. He may detest the periodical war scares and Dreadnought deliriums to which his countrymen are so much addicted. He may fail to see the necessity for challenging other Powers to a race in building warships and arming them with the heaviest guns that can be mounted on them. He may want to know if it is not possible for European States to adjust their naval and military forces to their individual circumstances without this perpetual struggle to get ahead of each other.

We all know only too well the ruinous effects which unbridled competition has on business. Simple analogy might teach us that it is likely to be no less destructive in naval and military affairs. Everything that tends to aggravate competition or to give new openings for it is foreign to a wise defensive policy. It is good neither for an army nor a navy, but particularly bad for a navy. The latter is much more liable than an army to worship mere size and numbers. An army is subject to certain physical and financial limitations which no military genius however great can wholly overcome. The human material for it grows slowly, and only a certain quantity of it becomes available every year, and even then it cannot all be called away from the routine work of the nation. Funds are never unlimited, and the bigger the army the more difficult it is to finance.

But from some of the most embarrassing of these limitations navies are unfortunately free. The tremendous fighting machines of which they are composed can be manufactured continuously. They can be enlarged continuously. Their designs can be altered at will. Their hulls, their engines, their guns, and their general equipment are in a constant state of evolution. A designer, a scaremonger, a political alarmist, a cheese-parer, or a Little Englander can, if he is persistent enough, make his mark on our naval

policy. A reforming Sea Lord may in a moment change the whole direction and object of our naval strategy. Fleets of cruisers may be discarded by one Board of Admiralty and have to be rebuilt by another.

A navy must always be an enigma to its owners —that is, to the people who pay for it. Whether it is growing stronger or weaker; whether its new departures are improvements or the reverse; whether it is holding its own against all its rivals, and especially against those which it has most need to be on its guard,— these are all vital matters as to which no people can ever be completely sure. From day to day they will hear the most contradictory views on the same subject expressed by experts of high authority. Simultaneously they will be invited to put their trust in the "blue-water school," in the "no-possible-invasion school," in the "half-dozen-Dreadnoughts-every-year school," and even in Lord Haldane's Territorials.

Then, as a crowning act of faith, they will be asked to believe that this chaos of authorities and experts is under the guidance of a far-seeing Foreign Office, which has an eye on all the eventualities that can happen within the seven seas. If, as Mr Norman Angell assures us, war is a "great illusion," the popular idea of the Foreign Office is a much greater one. When Foreign Ministers drop professional mystery and speak their real minds—as they do sometimes in

posthumous diaries—they admit frankly that they cannot see much farther into the future than the man in the street. Which of them, for instance, has the slightest idea what will be the outcome of the Turkish-Italian deadlock? Who among them can forecast the issue of the sudden and wonderful upheaval that is taking place in China?

In the world-movements of the present day the most experienced diplomatist may find himself utterly at sea. Armies and navies are practically powerless, because no Government can make up its mind what to do with them, or if anything can or should be done. Italy has nonplussed Europe with an accomplished fact in her dramatic seizure of Tripoli. All that the other Powers can do now is to cast about for a new diplomatic formula into which the accomplished fact can be fitted and made to look right and proper. The game is played with the coolest and most consummate hypocrisy, and the best that can be said for our own Foreign Office is that it lies as low as it can and says as little as possible. It may certainly claim the negative virtue of reserve. It knows the people it is dealing with, and has a shrewd guess at their ulterior designs. But if it were to interfere it would promptly become a scapegoat for all the real mischief-makers.

All the Great Powers—the youngest of them especially—want to sit in the sun. With this view they are continually rectifying frontiers,

establishing protectorates, and bargaining about open doors. They use the most friendly diplomatic language to cloak the most unfriendly and undiplomatic encroachments. At the opening of every new controversy they premise that there can be no question of war. It is to be a pure matter of business, but all the same we are never allowed to forget that inside the velvet glove there is a mailed fist. The background is crowded with navies and armies which, without firing a gun, may say the deciding word in a negotiation affecting the very existence of a nation.

In the modern world it is the statesmen and diplomatists who have to make most use of fleets and armies. But they have by no means the chief voice in their creation and administration. The British Navy has suffered more than any other from this vicious anomaly. The man in the street or in the newspaper office has often more influence over it than the Foreign Office. It is increased or reduced, strengthened or weakened, as a warlike or an economic fit seizes him. When the man in the street or in the newspaper office is quiescent, an equally dangerous character—the naval reformer at the Admiralty—is sure to be busy inventing some new type of ship or gun, or some different system of naval strategy. Then half of the existing navy is declared out of date, and the naval Powers all start on a fresh effort to outbuild each other.

The absurdity of such competition is that there

is no consistent foreign policy behind it. The experts who manufacture the new ships and guns have no idea what they are to be used for, or even if they are to be used at all. Probably ninety-nine ships out of every hundred built will never fire a shot in real war. They are simply pawns, and very costly pawns, in a game of diplomatic bluff. The Ministers who conduct our international relations may know little or nothing about the military forces which are supposed to give authority to every word they speak or write. Every State with which they may have differences to discuss will have its own military peculiarities. It may be strong in one way and weak in another, and a capable diplomatist would take a higher tone with a Government on which he could put more military pressure than on one which could not be easily reached either by a fleet or an army.

An important branch of the new diplomacy—made, of course, in Germany—is always taking stock of the armaments of other nations. It sizes them up from time to time, and takes note of their weak and their strong points. Thus it finds out what it can depend upon should the question have to be referred to the final arbitrament of war. But when all imaginable care and foresight have been exercised, there are sure to be many painful surprises at the first clash of arms. Many devices and appliances from which great things were expected will break down the moment they go into

action. Weapons of the latest type and the most perfect in theory may be found quite unsuitable and ineffective. Possibly something much cheaper would have served the purpose better. Perhaps altogether new weapons have at the last moment to be improvised for the occasion.

This has happened more than once in British wars. In the Boer War North and South America had to be scoured for army horses, and then the railway carriages into which they were crowded on their way to the front were not big enough to carry them without a frightful mortality in transit. In the Crimean War the fleet with which Sir Charles Napier so proudly entered the Baltic for the purpose of destroying Cronstadt could not get near the fortress owing to shallow water. He had to come home again crestfallen, and Russia's Baltic frontier escaped with very little harm.

The Achilles heel of most armies, and especially of British armies, is finance. The last thing that the professional soldier learns is rational expenditure. That constitutes at least 30 per cent of the fighting power of armaments, but it is in this country a still-born science.

SUMMARY OF CHAPTER II.

The British people covet nothing and envy no one. Our war problem is a problem of peace. "World Politics" and their cultivators. Sea power the special problem of to-day. The championship of the seas. The British race has enough to do to defend and maintain the British Empire. What we owe to the founders and builders of the Empire. Violent swinging of the imperial pendulum — Lord Chatham to Lord Bute and Cobden to Cecil Rhodes. The Duke of Wellington and the Perceval Ministry. How Bismarck prepared for war. Military policy and Parliamentary control incompatible. The British Constitution not a good fighting machine. Our dearth of Foreign Ministers.

MODERN WARS AND WAR TAXES

PART I. PROBLEMS OF MILITARY DEFENCE

CHAPTER II. WHAT BRITISH ARMS HAVE TO DEFEND

One of the few advantages which we enjoy over the other Military Powers is that we hold a purely defensive position among the nations of the world. We are entirely satisfied with our existing share of possessions and responsibilities. We covet no other man's goods and envy no other man's prosperity. All we ask of our sister nations is to be left in peace to work out the destiny of the British Empire. What that destiny is to be we know not. Without pride or vainglory we hope that it may be a continuance for generations to come of the championship of the seas, which we have not unworthily held since the days of Trafalgar and Waterloo. But if it should be our fate to lose that noble distinction, as other sea Powers have lost it before us, let us at least hope that it may not be surrendered

in any recreant spirit: that it may not be sacrificed to some short-sighted fit of economy, and above all, that it may not be wrecked by domestic strife and political jealousy.

For us the war problem is now and henceforward a problem of peace—not at any price, or under any provocation, but so long as our clear and indisputable rights are respected by other nations. To that may be added a rider—so long as international law and the principles of natural morality are not violated by any other nation. A simpler or clearer position than this could hardly be imagined. If all the other Military Powers were prepared to endorse it, the future peace, not of Europe only but of the world at large, would be assured. But the other Powers have one and all a right to speak for themselves. To them the war problem may present itself in a different light from what it does to us. They may regard it from a different historical standpoint. They may picture to themselves a different future from ours. They may have interests, ideas, and ambitions in which we have no share.

The Military Powers who go in for what is now called "world politics" have necessarily programmes to match. Their domestic policy, their foreign policy, and their military policy must all be large enough to provide for world-wide eventualities. But Great Britain has not entered into that new and far-reaching competition. In any international emergency such as a break up of the

Chinese Empire, or a collapse of the Turkish Empire, or a foreign attack on Constantinople, or the declaration of a holy war by the Moslems, it would, of course, join with the other Powers in trying to stem the torrent of chaos and disorder which would thereby threaten mankind.

The Military Powers, as such, have duties of international police to discharge toward the other Powers and their subjects. Great Britain has always willingly borne her share of these, and will, it is to be hoped, always do so with equal readiness and promptitude hereafter. Apart from these, and from the special emergencies above referred to, it has no war policy outside of the British Empire. But that, it may be justly said, is a vast problem in itself. It is virtually a world-wide problem, for there are few corners of the globe without a British outpost with the British flag flying over it. Every one of these outposts, if it be only a mud fort with half a dozen men in it, is the British Empire in miniature.

The defence of the British Empire has another peculiarity which complicates the war problem, both for ourselves and for other nations. It is a problem of sea-power—the special problem of the present day. Land forces have, in the opinion of some military authorities, reached the limits of their development. Only so many millions of armed men can be drawn from a given population, or crowded into a given area, or made use of in a particular campaign. Moreover, land armies

can be so equalised in strength and equipment as to neutralise each other. Military rivalry ends in a deadlock between them, such as now appears to exist between the armies of France and Germany.

But the sea is illimitable. It has room for any number of warships. It is the ever-open highway of the world, the boundless channel of commerce, the freest and fairest battlefield of nations. It is on the sea that the decisive battles of the future will be fought. The championship of the seas is a dazzling prize which every Power with a good stretch of coast line, up-to-date forts and arsenals, and money to build Dreadnoughts with *ad libitum* may well covet. That more than one Power covets it, and may in course of time challenge our claim to it, may be taken as one of the most natural and obvious facts of the existing naval status. They have a perfect right to do so, and we, the present holders, cannot refuse their challenge. We cannot even consider it an unfriendly act. It arises so logically in the evolution of a great naval Power that, instead of being resented, it should be treated as a matter of course.

If the championship of the seas were an empty honour, like the championship of the ring or the cricket-field, there might be grave doubts if it were worth the forty odd millions per annum which we spend in maintaining it. But there is much more in it than honour and prestige. The safety and integrity of the British Empire are

involved in it, and can never be separated from it. The British Empire has been from the beginning, and will have to be to the end, an empire of the seas. As such it has to be defended, and its chief defenders must be the inhabitants of these islands. Not only their fate but the fate of fifty British colonies and dependencies will rest on the next great battle of the British Navy, whether it be fought in the English Channel or the North Sea.

What we have to defend against a world in arms is as clear as daylight. It is the British Empire, no more and no less. It is for that we pay war taxes, the burden of which is becoming more and more intolerable. For that and not for nightmares do we build Dreadnoughts at two millions sterling a-piece—the cost of a whole English Navy in the days of Blake and Raleigh. This cruel necessity is laid upon us by circumstances and events from which we cannot escape except by the back-door of national suicide. The championship of the seas is our national and imperial trust. It has either to be maintained effectively or to be surrendered altogether—there are no half courses possible. Which is it to be? That is our war problem, and the only intelligible object for which we pay war taxes.

The British Empire may or may not be worth all that we are paying for its defence. We ought to have made up our minds by this time whether it is or not. It has been growing on our hands for three hundred years, and if it is not worth

keeping it will not be worth fighting for. This is a point on which only one opinion is conceivable among the people of the Empire. If it is not worth holding, both by sea and land, our bloated armaments have no *raison d'être*. The British citizen who does not believe whole-heartedly in the British Empire ought, if he be logical, to regard the seventy odd millions spent on his army and navy as to a large extent wasted money. If he does not believe in the British Empire, what rational answer can be given to foreigners who denounce our predominant navy as a great naval bully? How can he excuse its existence to foreign diplomatists, anti-militarists, and other hostile critics?

At this imperial juncture have we not much to learn from the brilliant story of how the Empire was built up, consolidated, and defended in the past? Many a dark and gloomy time it has had to pass through between its periods of triumphal progress. Many a storm has lowered over it and threatened to wreck it. Many a crisis quite as grave as the present one has been surmounted with British fortitude and self-reliance. We have only to glance back to a few of the heroic episodes in our national history in order to derive inspiration and confidence for whatever ordeals may yet await us.

But there are also other lessons we may have to learn from the past. Running through the vivid story of the Empire there are tangled

threads of wavering and often feeble policy. The courage with which most of it was won shines all the brighter by contrast with the irresolution and uncertainty with which it has been held. Our imperial policy has been a very weather-cock swinging round to every passing breeze. In the eighteenth century we find it veering suddenly from the heroic mood of the Earl of Chatham to the mean Court intrigues of Lord Bute. Early in the nineteenth century the sceptre of the younger Pitt passed into the feeble hands of Addington. Later on the opposite spirits of Canning and Castlereagh fought for mastery at the Foreign Office. Still later the nation sided now with Palmerston and then with his lifelong opponent, Richard Cobden. The warlike and the peacelike moods came and went spasmodically. Elderly men among us can remember almost every incident of the long duel which inflamed the closing years of Queen Victoria's two greatest Prime Ministers, Lord Beaconsfield and Mr Gladstone. They were the champions of two opposite schools of foreign policy, and it is significant that keener recollections are cherished to-day of the statesman who, to save Europe, summoned Indian troops to Malta than of the one who made Exeter Hall ring with denunciations of the Bulgarian atrocities.

Cynical, self-satisfied, and phlegmatic as the present generation may be, every British heart still thrills at the echoes of Lord Chatham's patriotic eloquence. They swell with pride at the thought

that there have been English Ministers of whom it could be said, as was finely said of Chatham, "No man ever entered Pitt's closet who did not feel himself braver when he came out than when he went in." It cannot be forgotten either by Whig or Tory, Conservative or Radical, that such Englishmen have lived, and that their great souls inspired the long struggle out of which emerged the British Empire as we know it to-day.

Lord Chatham, at the middle of the eighteenth century, found his country in a deplorable plight. The craven and corrupt administration of Sir Robert Walpole had humiliated it both at home and abroad. It had lost all prestige and self-respect, so much so that the superfine Lord Chesterfield exclaimed, "We no longer exist as a nation." Then suddenly out of the darkness of despair a trumpet voice summoned it to fresh effort. "I want," said Chatham, on taking office, "to call England out of that enervate state in which twenty thousand men from France can shake her." England answered to the call, and within three years she had raised herself from the dust to a pinnacle of unprecedented power and glory.

But this brilliant epoch was short-lived. The nation had been again brought very low by "the king's friends" when the younger Pitt entered Parliament in 1782. At this time a very different policy from Chatham's was urgently needed, and the son, by virtue of his being in many ways the

opposite of his father, was able to supply it as no other living man could have done. Seldom has any nation passed in rapid succession through two such crises as those of 1756 and 1783. Still more seldom has a nation been so providentially favoured with statesmen exactly fitted to meet these crises. The second Pitt was as surpassingly great in his peace policy as the first Pitt had been great as a War Minister. If we could always count on finding such heaven-born statesmen when they are as badly needed as they were then, we should have no further cause to envy the far-seeing war plans either of Germans or Russians.

This much we may claim for the honour of the nation, that we can in great emergencies produce great leaders. If our foreign policies have been weak, wavering, and variable, we have been blessed with a rare succession of supreme spirits who have stood firmly in the breach when all seemed to be lost. Great Englishmen like Chatham, Clive, and the Duke of Wellington have done the right thing at the right moment, and with a single word or a deed have turned the tide of misfortune. In so doing they have also changed the current of history. Such a moment in the life of the nation occurred when the Perceval Ministry in 1810 left it to the Duke of Wellington to decide whether he should remain in the Peninsula or bring the remains of his army home. The Duke's reply was characteristic. "I conceive," he said, "that the honour and interest of our country require

that we should hold our ground here as long as possible, and, please God, I will maintain it as long as I can."

The sequel to that brave resolve will be found in one of Kinglake's most graphic passages. Describing the end of the campaign in which Wellington drove the French out of the Peninsula and back into their own country, he says—

It has fallen to the lot of England also to have some share of the honour which Europe bestows upon resolute defenders of the right, for when Bonaparte wished to make himself master of Spain and Portugal it was the interest of England to prevent this result if she could, and to endeavour to thwart and humble the French Emperor in the midst of his triumphs; but it was also for the interest of Europe that England should be able to do this. Nay, so crushing had been the disasters suffered by the Continental States that the glorious duty of standing foremost and alone in defence of the liberties of mankind was cast for a time upon England. The task might well seem a hard one, for all that the islanders could do was to send out in ships scanty bodies of troops in order that the men, when they landed, might encounter the armies of the hitherto victorious Emperor. But England did not shrink from the undertaking. For more than six years she carried on the struggle, and during some three years of that time she stood alone against Napoleon, for he had put down all the other nations which sought to resist him. During that evil time it seemed that the vanquished people of the Continent had no hope left except when they were telling one another in whispers that England remained mistress of the seas, and in the Peninsula was still fighting hard. Times grew better, and though Napoleon still held the language of a great potentate, he had so mismanaged

the resources of the heroic and warlike country which he ruled that an English army was able, with its Portuguese auxiliaries, to invade and hold the territory. Whilst he still pretended to the Germans that he was a proud and powerful sovereign, Wellington unmasked the whole imposture of the "French Empire" by establishing his army and his fox-hounds in the south of France and quietly hunting the country in the livery of the Salisbury Hunt.

The action of the Perceval Ministry on the one hand and of the Duke of Wellington on the other in 1810 illustrates the special weakness of our imperial defence. It is always liable to fall between two stools—the political and the military. Rarely indeed have these two forces worked together in single-minded and intelligent harmony. British Parliaments have invariably been a clog on military operations. They have even prevented us getting an army adapted to the changing conditions and requirements of the age. On the most fundamental of imperial questions they have all been more or less hopelessly divided. In the history of the Empire not a single House of Commons could be named which was capable of dealing on the instant with any vital problem of military defence.

Where, as with us, every branch of the public service has to run the gauntlet of Parliamentary criticism, and where the criticism is chiefly of a captious and petty sort, the military arm must necessarily be greatly hampered. It can never have the same freedom of action, and conse-

quently the same chance of success, as the military force of a Government less subject to Parliamentary interference and fault-finding. Such a Parliament-ridden country can never have either an army or a navy capable of adapting itself quickly and effectively to fresh emergencies.

Prince Bismarck, when he was preparing for the wars of 1866 and 1870, created by sheer force an army to suit him. In his case the military policy was subordinated to the foreign policy and became its obedient servant. Seldom if ever has a British Minister had a similar chance to combine the two. Very few of them have ever aspired to such a height of practical statesmanship. Had he done so he would in all probability have been thwarted at every turn, as Pitt was by his rival Fox, as Palmerston was by his relentless critic Cobden, and as Lord Beaconsfield was by Mr Gladstone.

The late Lord Salisbury said very truly that the British Constitution was not a good fighting machine. If it was bad in Pitt's day it is infinitely worse now. A consistent foreign policy is inconceivable in democratic assemblies like the modern House of Commons. Under such Donnybrook conditions Foreign Ministers with minds of their own could neither be born nor bred. If they did by chance turn up they could do nothing. They could not get any two of the contending factions to agree in a bold policy of any kind. Even if theoretical agreement could be reached, a free

hand would never be given to them to carry out any given policy. They might be allowed to write despatches about it and make brave speeches for home consumption, but if it came to the point of war there might be neither a dollar nor a soldier forthcoming to back it up.

We may as well open our eyes to these facts now as later. We shall have to one of these days. Buckram Foreign Ministers with buckram armies behind them and parliamentary cliques pulling them in half a dozen opposite directions can speak with little authority in international crises which only strong men can deal with. In our national history there has been no lack of strong men. In remote parts of the Empire, when beyond the reach of Parliamentary strife and intrigue, they have done noble work. India, Canada, South Africa, Australia, and even the smallest of our colonies, has a head-roll of great soldiers and administrators; but there is a comparative dearth of them at home. The British Parliament has not proved favourable soil for them. It has produced no end of orators, debaters, and financiers, but very few Foreign Ministers of the first rank. The bulk of them have been mere despatch-writers, and mediocrities at that.

When we have mentioned the younger Pitt, Canning, Palmerston, and Beaconsfield, the list of our great Foreign Ministers in the nineteenth century will be exhausted. Without a strong

Minister there can be no strong policy, foreign or domestic; without a strong foreign policy there can be no definite policy of defence, either national or imperial. A definite policy of defence requires clear far-seeing financial plans for its effective execution. Only when this rare combination of conditions has been realised can either a nation or an empire have perfect confidence in its army and navy, however strong in themselves these may be.

SUMMARY OF CHAPTER III.

Armies march on their stomachs. Commissariat problems. Wealth in war very different from wealth in peace. Labour not the only source of wealth. Whatever increases the food-supplies of a nation and its other necessaries of life contributes to its wealth quite as much as physical labour can do. In war all speculative values go down, but all food values tend to rise. The supreme importance of assured food-supplies at moderate prices. The pigeon-holed reports of Royal Commissions and Select Committees on food and raw materials in time of war. The warning of the British Corn Merchants in 1903. Our importations of food in Cobden's time and in 1911. British war risks far greater than those of any other nation. Our special responsibilities in international trade and finance. No other civilised Government has ever sat so calmly under such terrible risks and responsibilities as the British Government does to-day. Probable cost of our next European war. How it will overshadow all our previous war finance. The war bills of William III., Marlborough, Lord Chatham, the American Revolution, and the twenty-year fight with Napoleon. Tribute of Sir Robert Peel to Pitt's war finance.

MODERN WARS AND WAR TAXES

PART I. PROBLEMS OF MILITARY DEFENCE

CHAPTER III. FOOD AND FINANCE

NEXT to the strength and efficiency of the fighting forces, the most decisive factors in war are food and finance. An army, it has been said, travels on its stomach, and the stomach has to be fed—often at heavy cost. This branch of military science has always been underrated by non-military men, including, we are ashamed to say, Ministers of the Crown. Soldiers like Lord Roberts and Lord Kitchener, who have had actual experience of the enormous difficulties of feeding large bodies of troops on the march, have devoted as much study to commissariat as to strategy. In their opinion it is as essential that troops in the field should be well fed as that they should be well armed.

But even our most intelligent and experienced Generals do not yet sufficiently appreciate the next step in the military problem—namely, the

close connection between food and finance as factors in war. It may seem a mere truism to say that the food of an army must be paid for, and that the necessary money must be provided somehow. But out of that truism arises a long series of the most intricate economic and financial questions, which become more and more intricate as they expand.

What food-supplies may be required in a particular campaign; how they are to be obtained, collected, and transported to where they are to be needed; how they are to be paid for, and what effect the payments may have on the regular course of international finance; how the money is to be raised—whether by taxation or by borrowing, or by certain proportions of both; how the loans may be issued so as to obtain the best possible results, not only in actual proceeds, but in prestige and popularity; how the taxes may be so adjusted and levied as to inflict a minimum of hardship on the taxpayers, and through them on the general community: above all, how the financial operations of the war are to be conducted so as to cause the least possible disturbance to the industrial and commercial life of the country — these are a few examples of the questions which any public man who seriously regarded the risks of war, and did not treat them merely as a political stalking-horse, would in times like the present be having continually in his mind.

In a subsequent chapter[1] the relative position of food and the necessaries of life in the scheme of national wealth will be explained more in detail. Anticipating that explanation, we may here give the general conclusions arrived at. They are that national wealth is of three classes or grades: first, primary wealth, comprising food and other necessaries of life; second, commodity values due to human labour and skill; third, conventional or speculative values due chiefly to the demand at a given moment exceeding the available supply (stocks, gems, and works of art).

In applying this classification of wealth to military science it will have to be observed that primary wealth is a fundamental preliminary condition of the other two. No State or community can be really wealthy without a fairly well-fed and well-housed population. Miles of factories and workshops, employing millions of people, if they had not an assured supply of the prime necessities of life, would be almost as artificial and unreliable wealth as miles of picture-galleries. The millions of workpeople could not be permanent wealth creators unless they were kept in good physical and moral condition, and that again will depend on the efficiency of their food-supplies.

With all respect for Adam Smith and his Socialistic perverters of the present day, labour

[1] Chapter ix. Elements of Military Strength—Solid Utilisable Wealth.

is not the sole source of wealth. The means of keeping labour in good condition and fit for work —in other words, an adequate stock of food— is as much wealth as labour itself. The means of providing employment for labour, organising it, superintending it, financing it, and disposing of its produce, may be much more valuable than the mere physical effort of production. In normal times all these economic truths may be obscured even from thoughtful people. The social and industrial machinery works so smoothly, and all the wheels fit so well into each other, that their complexity is forgotten. But war or any other national calamity soon levels down artificial values and explodes economic fallacies.

The different classes of wealth — primary, secondary, and speculative — are usually mixed up together and regarded as if they were all alike and all equally good. A man may be a millionaire on the strength of a few square yards of ground close to the Bank of England, or of shares in the output of rubber trees on the Malay Peninsula. In normal circumstances such figurative or conventional wealth may be multiplied indefinitely provided there be a sufficient basis of primary or food wealth to carry it. But in a national catastrophe like war or famine or pestilence it would rapidly evaporate, and the longer the catastrophe lasted the greater would be the shrinkage of fanciful values. The community would then have to fall back by degrees

on its primary or food values — the values which could not be wholly destroyed without national extinction.

In estimating the wealth of a nation from a military point of view, a fundamental distinction has therefore to be drawn between primary or food values and conventional or speculative values. In war, and especially in a prolonged war, the speculative values would tend to collapse, while the primary or food values would tend to advance. In the progress of a war, crises often arise—sieges or blockades, for instance—where food becomes the only kind of wealth worth thinking about. Fabulous prices will be given for anything eatable, while the finest gem or the most beautiful picture would appeal in vain for a purchaser.

This is one of the most familiar and elementary facts in the history of war, but how seldom is any practical moral drawn from it either by political or military authorities? How simple and conclusive a truth it looks when once plainly stated, that in time of war food becomes the most important and indispensable kind of national wealth. Everything else may shrivel up for the time being, but the rudest, plainest article of food begins to appreciate from the moment that war is declared. Nevertheless, food is the one kind of war material that is not systematically studied as a branch of military science. Men, horses, big guns and little guns, Dreadnoughts, cruisers, torpedo-boats, shot,

shell, wireless telegraphs, and aeroplanes are all stored up "for the great day," but food!—why bother about it? It is taken for granted that the butcher, the baker, and the grocer will be all carrying on business as usual.

Again and again the Government and the people of these islands have been warned that they are living in a fool's paradise with regard to their food-supplies in time of war. They are not simply in a fool's paradise but on the brink of a volcano. Officially and unofficially, in Parliament and out of it, by Royal Commissions and Chambers of Commerce, the alarm has been sounded of famine following war, but it has fallen on deaf ears.

The House of Commons, since it took to crusading on behalf of social reform, has suffered a terrible decline in business capacity. Not only has it ceased to grapple with business questions, but apparently it has lost all interest in them. The question of ensuring our food-supplies in time of war has been forced on its attention from many different quarters, but in vain. No county council or burgh council in the Three Kingdoms would have dared to trifle, as the House of Commons has done, with a matter of such supreme consequence as this. A single year of such scandalous negligence and improvidence would have raised a storm of indignation against it and swept it away. That may one day be the fate of the House of

Commons, but only, it is to be feared, when its sins are beyond remedy.

It is now eight years since the Royal Commission on Food and Raw Material Supply in War made a report, full of valuable and definite recommendations, not one of which has received the slightest attention either from the Executive or the Legislature. The congestion of London traffic and other urgent domestic reforms have been investigated, reported on, and pigeonholed in the same way. These burlesques of public inquiry have become so systematic and notorious that Royal Commissions are openly jeered at as an understood dodge for shelving troublesome questions. But the fault is not with the Royal Commissions; it is with the Ministers who appoint them, and then burke their reports. Everybody concerned in burking the report of the Royal Commission of 1903 on Food and Raw Material Supply in War runs a risk of summary hanging should the British Navy ever lose command of the sea.

This particular dereliction of duty on the part of both Executive and Legislature is the more flagrant, inasmuch as the inquiry aroused keen interest among the public. All the witnesses—military, commercial, and general—were agreed on the gravity of the case. Many public bodies came forward voluntarily with memorials and resolutions in favour of immediate action.

A conference of Trades Councils, 120 in number, expressed the opinion that, should this country become involved in a European war, bread would rapidly rise to famine prices; and if nothing were done beforehand to guard against that, it would prove a source of the gravest national danger.

The highest professional authorities in the country also took action in the matter. Seventy-four of the leading British corn merchants signed a memorial in support of the recommendations of the Royal Commission, and had it published in all the chief newspapers of the United Kingdom. It was so forcible and to the point as to be worth reproducing.

MEMORIAL OF BRITISH CORN MERCHANTS, 1903.

We, the undersigned, concur in the opinion that if Great Britain should become involved in a European war, the country must be prepared to see bread at practically famine prices. We base our opinion on the following reasons:—

1. The experience of the Napoleonic and Crimean Wars, during each of which, though we possessed full command of the sea, the price of wheat rose enormously.

2. As late as the Crimean War we were almost self-supporting, but we now import four-fifths of our wheat.

3. The chief source of our supply is the United States; but the price of wheat on the American corn market can be raised artificially, and, in the event of a European war in which Great Britain was involved,

it is quite possible—indeed probable—that it would be so raised.

4. The corn trade on both sides of the Atlantic would expect to make war profits on a scale commensurate with war risks.

5. The capture of a few food-ships such as, having regard to the relative strength of our Navy, appears inevitable, would still further drive prices up.

It is not possible to specify the height to which the price of wheat, and consequently of bread, would rise, for it would depend on the degree to which it was influenced by each of the five factors before enumerated. Taking, however, into account the vast importance of the question of our food-supply in the time of war, we feel that the country ought to know that in the opinion of corn merchants it must, in the event of such a war, prepare to see wheat, and consequently bread, at what would be to the poor famine prices.

No warning could be plainer or stronger than that, nor could any warning have been more completely disregarded than it has been. The truth is that the British Parliaments of last generation became so obsessed with the idea that the greatest thing they had ever done was the abolition of the Corn Laws, that for long afterwards they could not look at anything in any other light. They confounded the problem of national food-supply with free imports of foreign food. The domestic supply sank into insignificance both in quantity and in public esteem. Consequently Parliament became more and more incapable of appreciating other and larger aspects of the food question. Though

its anti-Corn Law obsession is gradually passing away, it is still far from a broad and full realisation of the many vital issues which depend on assured food-supplies.

On this point, as on many others, Cobden's glowing predictions have gone far astray. Where they have not proved entirely false, they appeal now to a very different world from the one he lived in and had to deal with. In his time the all-absorbing question was how to get the largest possible amount of cheap food from abroad. But to-day it is how to get food from anywhere at reasonable cost. If we were involved in a European war, the question might be how to get any kind of food at any price. In addressing the Council of the Anti-Corn Law League at Manchester, five years after the great victory had been won, Cobden said—

> Since the day when we laid down our arms there has been imported into this country in grain and flour of all kinds an amount of human subsistence equal to upwards of fifty million quarters of grain—a larger quantity than had been imported from foreign countries during the thirty-one years preceding 1846—that is, from the Peace of 1815 down to the time at which we brought our labours to a close.

This 50,000,000 quarters of grain imported between 1846 and 1851 averaged 10,000,000 quarters per annum. It seemed to Cobden a stupendous importation, but if he were to come to life again and to see the Custom House re-

cords of the present day he would receive a much greater surprise. He would find that we are now importing as much foreign food in a single year as we did in the whole five years which seemed to him so astounding. The aggregate weight in 1910 was 205,625,000 cwt. Its appraised value was nearly 258 millions sterling, and the details which might also have interested Mr Cobden were as follows (the corresponding totals for 1903 are added in order to illustrate the growth of these imports):—

BRITISH IMPORTS OF FOOD, DRINK, AND TOBACCO, 1903 AND 1910.

	1903.	1910.	Increase.
Butcher meat .	£54,269,217	£53,399,139	£870,078[1]
Fish . . .	3,215,717	4,337,351	1,121,634
Breadstuffs .	70,535,680	77,298,365	6,762,685
Dairy produce .	38,526,062	43,176,422	4,650,360
Vegetables .	5,333,125	4,444,565	888,560[1]
Fruits . .	10,255,256	9,114,180	1,141,076[1]
Groceries . .	35,086,964	46,264,439	11,177,475
Wines, spirits, &c.	6,711,910	6,112,862	599,048[1]
Tobacco . .	4,177,944	4,624,686	446,742
Unclassified .	4,357,474	9,016,407	4,658,933
	£232,469,349	£257,788,416	£25,319,067

The raw materials which we have to import cost us about as much as our foreign food, drink,

[1] Decrease.

and tobacco. In 1910 their appraised value was £261,242,000. Between them, food, drink, and raw materials cost fully £519,000,000. Our total imports were £678,440,000, and that amount, less exports valued at £430,590,000, had to be financed day by day throughout the year.

This financing process produces another puzzling feature of our foreign trade—namely, that our food imports are the chief basis of the international exchange business of which London is the headquarters. Our total imports rise or fall according to the quantities of food and raw material we require to make up the deficiencies of home production.

On both classes of imports the shock of war would doubtless be serious. The cotton famine which pinched Lancashire so cruelly during the American Civil War can give us only a slight idea of the suffering that a general stoppage of food and raw material supplies would entail. The disaster would not end with a wholesale shutting down of factories and famine prices for food, but all our banking and financial machinery would be thrown out of gear. The international exchanges would be disorganised and the financing of the war would be rendered more difficult and costly. If it be said that these dire evils have not as yet happened to Italy in her campaign against Tripoli, and that they did not happen during our South African war, the reply is very simple, — these are both in-

significant affairs compared with what a conflict between two first-class European Powers would be.

Moreover, no other State, large or small, can be compared with Great Britain in respect of the war risks we are now considering. No other State is so largely dependent as it is on imported food and raw materials. No other State has such an enormous foreign trade to finance. No other State has such a network of credits and debits to see to all over the world. No other State attempts to maintain an absolutely free market for gold. No other State is so continually exposed to financial demands from other countries. No other State is burdened with its special responsibility for maintaining and safeguarding international credit.

Great Britain has not only vast interests of her own to defend in peace and war, but it has still more vast responsibilities to fulfil to other nations. As the lynch-pin in the machinery of international finance London has exceptional privileges and duties. It cannot without lowering itself in the world's esteem take risks which might be pardonable in a less responsible city. It has to remember that any avoidable catastrophe it may bring on itself by gross unpreparedness for war at a time when war risks are rampant on every hand will be a catastrophe for the commercial world at large. The whole commercial world will have the right to call us to

account for it, and the verdict on our negligence will be none too merciful.

The three governing factors in modern war are armaments, food, and finance. How we may stand as to the first I cannot say, being in such matters only one of the men in the street. We must leave them to the military authorities with one qualifying remark—that we should have much more confidence in the authorities if they were not of so many minds, and if they did not indulge in so many changes. About the other two I can speak from personal experience and observation. As regards provision for feeding and financing a military and naval force capable of defending this country against a first-class European Power, there is no trace of such a thing. As regards feeding the forty-five millions of people whose lives and fortunes may depend on the issue of such a war, there is no pretence that it has ever been seriously thought of.

No civilised Government has ever before gone to sleep amid such risks as these. No Ministers of the Crown have ever borne such a terrible responsibility as rests on his Majesty's present advisers in these respects. No heads of the Admiralty and the War Office have ever had such problems to solve as the commissariat and finance of a modern war would impose on them. The very magnitude of the task may seem to them a sufficient excuse for shirking it.

No war in which we have ever been engaged before can be compared in any way with what a twentieth-century war with a European Power would be for us. In point of cost even the twenty years' struggle with Napoleon affords no safe precedent. Our eighteenth-century wars were financed with taxation and borrowing which seem absurdly small to our modern ideas. The whole of the taxes levied in William the Third's reign amounted to only £58,698,000—well under sixty millions sterling—and his loans aggregated only £44,140,000. But he contrived to repay £34,134,000, and his addition to the National Debt was little more than ten millions (£10,006,000).

The grants made to Queen Anne during her twelve years' reign, which embraced the historical victories of Blenheim, Ramillies, and Malplaquet, amounted to less than seventy millions sterling (£69,815,000), and her loans fell short of forty millions (£39,973,000). Two-thirds of the total income of the Crown during this reign, loans included, were spent on war (£65,853,000 out of £109,788,000). George the First inherited a debt of fifty millions (£50,793,000), with a revenue of seven and a quarter millions (£7,224,000). But his expenditure was correspondingly moderate, as his army and navy together cost him only two and a half millions a-year. Entirely contrary to the usual practice, he saved money for the country. Instead of increasing the debt he

reduced it by a few millions, and handed it over to the second George at £47,581,000.

When the Eight Years' War (Dettingen and Fontenoy) was begun in 1739, the national revenue was mortgaged to the very small extent of 46½ millions. This war increased it by nearly 28 millions, leaving it in 1748 at £74,224,000. The Seven Years' War, which began so badly in 1755, and was so gloriously ended by Lord Chatham in 1760, cost a trifle under 51½ millions (£51,437,000). At that very reasonable cost we got the glorious victories of Plassy, Louisburg, Fort Duquesne, and Quebec. The last and greatest of these victories brought with it one-half of the North American Continent — the great Dominion which is now being so lustily boomed. As a foil to that brilliant chapter of British history came the revolt of our American colonies—a loss which cost more than all Chatham's victories had done.

The year 1793 launched us into our longest and most expensive but also most profitable war. It was begun with a public debt of £236,000,000, and a revenue from taxation of about £17,000,000. When it was wound up and all the accounts settled, there remained as souvenirs of Trafalgar and Waterloo a funded debt of £797,400,000 and an unfunded debt of £51,992,000 — together, £849,393,000. Strange to say, most of the taxpayers seem to have thought their hard-earned victory cheap at the money. The first Sir

Robert Peel—father of the Corn Law Sir Robert—was so pleased with it from a business point of view, that he addressed to both Houses of Parliament a letter enthusiastically praising Pitt's financial policy. It exhibits a public spirit so different from what we are only too familiar with just now, that the chief passage in it may be quoted—

> Whilst directing the energies of the State in war, Mr Pitt evinced equal ability in discovering, improving, and applying our internal resources. The war drained the country of its specie, and our enemies entertained sanguine hopes that our ruin would sooner be effected by want of pecuniary means than the want of courage, discipline, and conduct in our armies. Mr Pitt was more than a match for all contingencies. With the aid of the Bank of England and other opulent houses the energies of Great Britain were maintained in full activity, and the importance and utility of paper money were clearly established.
>
> Ingenious machines were introduced into our manufactures, and the encouragement and protection afforded them greatly increased the demand for our goods both at home and abroad. Our superiority at sea gave our merchants easy access to foreign markets, and the wealth derived from trade and commerce more than covered the expenses of the war. When the Minister had recourse to loans they were speedily raised by British capitalists, and the increase in the public debt was due from ourselves to ourselves, and resolved itself into a family account without impairing the national credit.

One is tempted to ask himself if another six hundred million war could be as successfully

financed to-day as that one was a century ago? Would our latest financial policy and our new political methods be likely to achieve results as good as those which were so warmly approved by the bankers, manufacturers, and merchants of whom Sir Robert Peel in the above letter was the willing spokesman?

Two grave and lamentable differences distinguish the present situation from that of the French war. First, there was then no question of imported food to worry about, as the United Kingdom was self-supporting. Second, there was a good understanding between the Government and the City, which to-day is conspicuous by its absence.

SUMMARY OF CHAPTER IV.

Finance a factor of growing importance in the military problem. Gross revenues of the eight Military Powers. Great Britain only fourth on the list. The aggregate revenues of the "Triplice" and the "Entente Cordiale" Powers compared. Their remarkable equality in amount but great diversity of composition. Great excess of fiscal revenues on the side of the "Entente Cordiale" Powers and of non-fiscal revenue on the side of the "Triplice." Earnings of State railways and other State undertakings. Industrial incomes of the various Military Powers. The United States and Japan. Combined national and municipal revenues of the Military Powers.

MODERN WARS AND WAR TAXES

PART II. THE MILITARY POWERS

CHAPTER IV. THEIR REVENUES

THE peace of the world depends to-day on the agreements and disagreements, the friendships and the jealousies, of eight Military Powers. This hierarchy of nations is graded according to their respective fighting capacities. Each measures itself anxiously against the others, and especially against its nearest neighbours. Formerly the standard was military only. Men and guns were all that counted, and the rest had to take its chance. But nowadays a new factor has to be reckoned with—finance. The decisive elements in the war problem of to-day are military and financial resources combined.

Any conflict between two of these Military Powers is bound to affect more or less all the others. It is necessary therefore to ascertain the relative positions of the chief Powers in the hierarchy. Their military and their financial

strength must have a definite relation to the strength of the whole. The primary point to determine is the aggregate financial resources of the Military Powers, including not only fiscal revenues but returns from State property, earnings of State undertakings, and miscellaneous receipts. Hitherto such comparisons have seldom been carried beyond the fiscal revenues of the several Powers. A wider and more complete scope is now being given to them.

The factor of most immediate importance in the financial strength of a State is the national revenue. For the eight Military Powers we have this information complete down to 1909. In that year their aggregate revenues were—

AGGREGATE REVENUES OF THE MILITARY POWERS, 1909.

Germany—		
The Empire . .	£131,645,600	
Prussia . . .	192,618,300	
		£324,263,900
Russia	. . .	252,634,100
Austria	£116,487,600	
Hungary . . .	72,949,300	
		189,436,900
The United Kingdom		181,716,000
France		158,337,000
Italy		87,169,300
Total of European Powers .		£1,193,557,200
The United States		161,430,300
Japan		57,422,600
Grand total . . .		£1,412,410,100

It will very possibly surprise the reader to find the United Kingdom only fourth in the order of

national revenues. That anomaly admits of two explanations. In the first place, the three Powers which stand higher have all much larger populations than our own. Secondly, their national revenues are swelled by extraneous income from State property, monopolies, &c., which have no corresponding items in our budget. If we deduct from the Russian aggregate of £252,634,100 the £6,495,100 derived from State property, and the £58,186,300 of gross railway receipts—together £64,681,400—the fiscal revenue proper will shrink to £187,952,700, or within a few millions of our own level.

A similar elimination applied to the revenues of Prussia and Austria will produce still more striking reductions. The gross receipts of the Prussian railways in 1909 reached the tremendous amount of nearly a hundred millions sterling, while another eight millions sterling was derived from salt works, mines, &c., belonging to the State. When these two items, aggregating £107,831,860, are written off the above £192,618,283, only £84,786,423 remains for fiscal revenue proper. Austria's Government railway system is not one-third as large as Prussia's, nevertheless it earned in 1909 £29,092,314. Other State property brought in £843,159, making nearly thirty millions sterling of non-fiscal revenue. When we deduct that from Austria's aggregate revenue of £116,487,614, the fiscal revenue proper declines to £86,552,141.

It is an odd coincidence that this should be

only half a million smaller than the national revenue of Austria's nearest neighbour and jealous friend Italy. Hungary's gross revenue of £87,169,359 included rather more than fifteen millions of receipts from railways and other State property. The fiscal revenue proper was consequently about fifty-eight millions sterling, or five millions more than the corresponding revenue of Japan (£57,422,000 less £4,357,810 = £53,064,190). To these coincidences another may be added—that between Great Britain and France. Their national revenues are on a similar scale, and both are being steadily pushed up by proletarian taxation.

As has been already indicated, no Military Power can nowadays live entirely for itself, or stand altogether alone. The conditions of national security, and even of existence, compel them to co-operate with each other. Statesmanship and diplomacy may initiate the combinations, but natural conditions must determine their operation. These may be military, commercial, or economic, but whatever they are in a given case they must have free course. At the present time we see the six Military Powers of Europe arranged in two groups of three each. On one side there is the "Triplice," consisting of Germany, Austria-Hungary, and Italy. On the other side is the "Triple Entente," embracing Great Britain, France, and Russia. An obviously important point is the relative financial strength of the two groups.

In order to ascertain this it will be necessary to show their respective aggregate incomes. When we have done that, however, it will be only an initial step toward a real comparison. There will remain a good deal still to do. The various revenues will be found to differ widely in their composition, therefore they will have to be analysed in order to bring the similar branches of revenue together, and to eliminate those which do not admit of just comparison. The budgets of most of the Military Powers are so framed that their revenues can be roughly arranged in three main divisions. The first of these will be the fiscal revenues proper, or receipts from taxes direct and indirect. The second will include the earnings of State railways and State undertakings generally. The third will consist of the miscellaneous receipts and windfalls which cannot be brought into either of the other classes.

When this analysis has been made—and it will be found no easy task—there will still be great diversity in the respective items. In one country direct taxes predominate, and in another indirect taxes are the chief revenue producers. The climax of dissimilarity is only reached, however, when we get to the State railways and other State underworkings. In respect of these there are no two countries on an equal footing. Between Germany and Prussia, which derive three-fourths of the public revenues from non-fiscal sources, to Great Britain, which has to squeeze

six-sevenths of its public expenditure out of the taxpayers, there is an obviously wide gulf.

In order to simplify as much as possible the detailed comparisons now to be made they will be divided into two groups. The first will be limited to the six European Powers, while the second and larger group will include the two great non-European Powers—the United States and Japan. In the following tables fiscal, non-fiscal, and miscellaneous incomes are distinguished. Table A. applies this threefold division to the "Triple Entente" group—Great

A.—Aggregate Revenues of the Triple Entente Powers, 1909-10.

	Great Britain.	France.	Russia.	Total.
Fiscal Revenues Proper.	£	£	£	£
Customs Duties .	33,140,000	19,834,280	27,431,700	80,405,980
Other Taxes . .	118,910,000	91,851,802	45,421,800	256,183,602
	152,050,000	111,686,082	72,853,500	336,589,582
Non-Fiscal Revenues.				
State Property . .	1,726,000	2,660,740	6,495,100	10,881,840
Railways . . .	—	2,970,055	58,186,300	61,156,355
Posts and Telegraphs	25,714,000	13,986,608	8,778,900	48,479,508
	27,440,000	19,617,403	73,460,300	120,517,703
Miscellaneous Revenues	2,220,000	27,033,508	106,320,300	135,573,808
	181,710,000	158,336,993	252,634,100	592,681,093

Britain, France, and Russia; while Table B. performs the same office for Germany, Austria-Hungary, and Italy, the three members of the "Triplice." As to the second, it should be remarked that the German figures cover in this case only the Empire and Prussia. To have taken in all the Federal States would have incurred the risk of confusing the comparison with items more correctly belonging to local expenditure.

B.—Aggregate Revenues of the Triplice Powers, 1909-10.

	German Empire and Prussia.	Austria-Hungary.	Italy.	Total.
Fiscal Revenues Proper.	£	£	£	£
Customs Duties .	31,707,157	23,494,283	13,639,358	68,840,798
Other Taxes . .	56,348,176	71,561,261	36,938,604	164,848,041
	88,055,333	95,055,544	50,577,962	233,688,839
Non-Fiscal Revenues.				
State Property . .	8,164,987	1,873,023	237,417	10,275,427
Railways . . .	105,699,265	43,264,998	1,440,145	150,404,408
Posts and Telegraphs	32,972,922	10,170,212	5,079,217	48,222,351
	146,837,174	55,308,233	6,756,779	208,902,186
Miscellaneous . .	89,371,354	27,259,452	29,834,628	146,465,434
	324,263,871	177,623,229	87,169,359	589,056,459

What in all likelihood will first strike the reader in the above tables is the wonderful coincidence between the aggregate revenues of the two groups.

Collected as they are from an endless diversity of sources and from many different races of people; consisting as they do of a multitude of different taxes arising out of various local conditions, and governed by many different fiscal doctrines and systems, they arrive in the end at two huge totals only 3½ millions sterling apart. The 245 millions of people who live under the "Triple Entente" contribute to their Government, in one form or another, 592 millions sterling a-year, while the corresponding contribution of the 150 millions who owe allegiance to the "Triplice" is 589 millions!

That this is merely a coincidence, however remarkable, becomes evident the moment we approach the details of the two tables. The aggregates of the separate branches of national income appear to be bent on differing as widely as they possibly can. Between the fiscal revenues proper of the two groups there is a discrepancy of fully one hundred millions sterling. The grand total of the taxes levied by the three Powers of the "Triplice" is only 233½ millions sterling, while that of the three Powers of the "Triple Entente" is 336½ millions. More than half of this enormous excess falls on a single Power, which has now the unenviable distinction of being the most heavily taxed country in Christendom. The two groups of fiscal taxes, when brought into close comparison, make an edifying exhibit, as under—

C.—Fiscal Revenues of the Military Powers of Europe compared, 1909-10.

I. The Triple Entente.

	Population.	Amount.	Per Head.
Great Britain .	45,469,000	£152,050,000	£3 7 0
France . . .	39,252,000	111,686,000	2 16 5
Russia . . .	160,095,000	72,853,500	0 9 0
	244,816,000	£336,589,500	£1 7 6

II. The Triplice.

Germany . .	63,879,000	£88,055,000	£1 7 7
Austria-Hungary .	51,250,000	95,055,000	1 17 0
Italy . . .	34,270,000	50,578,000	1 9 6
	149,399,000	£233,688,000	£1 11 3

When we come to the non-fiscal revenues (earnings of State railways and other State undertakings) the tables are completely turned. This time the "Triplice" group is about ninety millions sterling ahead of the "Triple Entente" group—

D.—Non-Fiscal Revenues of the Military Powers of Europe, 1909-10.

	The Triplice Group.	The Triple Entente.
Germany	£146,837,000	...
Austria-Hungary . .	55,308,000	...
Italy	6,757,000	...
Great Britain . . .	...	£27,440,000
France	...	19,617,000
Russia	...	73,460,000
	£208,902,000	£120,517,000

The earnings of the State railways and other State undertakings given above are of course gross, and a large set-off for working expenses has to be made. But that will be more conveniently explained in connection with the expenditures of the Military Powers, to be analysed in the next chapter. Merely as gross revenue, and regardless of the large outgoings on the other side, such immense sums of money passing through the Treasury day by day must confer on the State a certain degree of financial power which it could not have otherwise. Railway revenues in particular might play a valuable part in the financing of a campaign.

In the Miscellaneous revenues another surprising coincidence comes to light. In respect of these the two groups differ only by about eleven millions sterling. This, however, is a mere statistical accident. Miscellaneous receipts are such a medley of windfalls, loans, cross entries, &c., that no financial significance is to be attached either to their coincidences or their variations. Though the grand totals are alike, the national totals, as will be observed in Table E, are very unlike.

[TABLE

E.—Miscellaneous Revenues of the Military Powers of Europe, 1909-10.

	The Triplice Group.	The Triple Entente.
Germany	£89,371,000	...
Austria-Hungary . .	27,259,000	...
Italy	29,835,000	...
Great Britain . . .	...	£2,220,000
France	...	27,033,500
Russia	...	106,320,300
	£146,465,000	£135,573,800

The only item calling for remark in the above table is the Russian £106,320,300. Three-fourths of it represents the proceeds of the spirit monopoly—a peculiar perquisite of the Russian State. It appears to have yielded in the year 1909-10 £71,888,400. The Miscellaneous receipts proper would consequently be under 35 millions sterling. In the German Budget "Miscellaneous Receipts" include the matricular contributions from the Federal States, which generally exceed ten millions sterling, payments from certain States by way of commutation for imperial taxes, and what are called "administrative receipts." But loans appear in the Extraordinary Budget.

These tables illustrate the great disparity there

may be in State revenues apart from the yields of their rates and taxes. In one State there may be a large amount of national ownership, and in another very little. Germany, for example, has a great variety of national property—lands, forests, railways, canals, and telegraphs. This fact has powerfully influenced the development of the Empire, and still more that of the Federal States. In Prussia especially it has been a dominant factor. The Prussian Junker could not have so long held the country in an iron grip if they and the Government between them had not practically owned as well as ruled it. When political and proprietorial power are combined to the extent they are in Germany, bureaucracy is a natural sequel; democracy would be a misfit.

A question of increasing interest is what the military value may be of such extra revenue from State property. How will it affect the growth of armaments and the financing of possible wars between two or more Military Powers? Obviously it gives the property-owning Power independent resources to draw upon. These may in an emergency be very effectively used, and thus place less fortunate States at a serious disadvantage.

State railways and other State enterprises are becoming factors of great economic importance. As elements of military strength they are likewise demanding attention. Unfortunately they

are most unequally divided among the Military Powers, as the next table shows.

THE MILITARY POWERS—THEIR INCOMES FROM STATE PROPERTY AND PUBLIC SERVICES.

	£	Per Head. s.	d.
Germany, Empire . .	35,016,800	11	6
„ Federal States	154,942,200	51	0
	189,959,000		
Great Britain . .	25,441,000	12	6
France	14,299,700	7	3
Russia	72,103,250	11	6
Austria . . .	21,640,450	16	7
Hungary . . .	20,029,300	20	10
	41,669,750		
Italy	11,162,200	6	10
Japan	4,958,500	2	0
United States . .	42,600,560	9	3

The next step in our investigation will be to compare the annual revenues from State property with those from taxes of various kinds. Of the latter, the largest and most productive group is the indirect taxes, or, as they are sometimes called, taxes on consumption. Their aggregate produce for each of the Military Powers is set out in the table on opposite page.

There are a few paradoxes and surprises in this table. Perhaps the chief surprise for British readers will be that they, with their

CUSTOMS DUTIES AND TAXES ON CONSUMPTION OF THE MILITARY POWERS, 1906.

	£	Per Head. s. d.
Germany—		
The Empire . . .	55,034,400	18 0
The Federal States .	4,023,000	1 4
	59,057,400	19 4
Great Britain . .	72,797,200	35 0
France	64,259,300	32 9
Russia	109,269,500	17 5
Austria . . .	30,761,500	23 6
Hungary . . .	14,491,350	15 6
	45,252,850	
Italy	28,378,500	17 6
Japan	17,924,100	7 8
The United States .	115,138,900	30 2

Cobden Clubs and free-trade tariffs, pay the highest average per head of consumption duties. It is 35s., against the French average of 32s. 9d. and the German one of 19s. 4d. Even the United States, hotbed as it is of the greediest and most corrupt kind of protection, falls short of our Customs levy by 4s. 10d. per head. Great Britain has—on paper—the lightest consumption taxes, but in practice the heaviest of all the Great Powers.

Though the Military Powers of Europe will concern us most in this inquiry, nevertheless it would be very incomplete if it made no reference to the two non-European Powers which are com-

peting for the control of the Pacific Ocean. We therefore supplement the European details already given with corresponding figures for the United States and Japan. The relative position of Japan has been already indicated in likening it with that of Hungary. The United States stands nearer to France than to any other country in respect of national revenue. Its aggregate fiscal income in 1909 was £161,430,000, or three millions above that of France. In 1910 a large expansion occurred in all branches of revenue—customs, inland duties, and miscellaneous—and the total reached 900 million dollars, equal to £180,000,000. Japan has little more than a third of the United States revenue, and yet she contrives to make almost as great a show with it in the way of armaments. The details for both States are compared below, the year selected being 1909-10.

F.—Revenues of the United States and Japan, 1909-10.

	United States.	Japan.
	£	£
Customs Duties	60,142,000	4,837,100
Inland Revenue	49,243,000	27,994,000
State Railways, &c. . . .	1,540,000	5,479,400
Posts and Telegraphs . .	40,712,000	4,662,000
Miscellaneous	9,793,000	22,113,000
	161,430,000	65,085,500

Taking the aggregate revenues of the Military Powers (as shown on page 57) at 1412 millions

sterling a-year, nearly one-third is being spent on armaments, and any Great Power going to war would have to calculate on at once trebling or quadrupling its normal military expenditure. The next European war, if two or three of the leading Powers should be involved in it, will easily cost two millions a-day, or 730 millions a-year. How is such a large sum to be raised or to be financed in any way? The first resort would of course be to new taxes, the next to fresh loans, and the last to systematic retrenchment. Heroic cutting down of normal expenses will probably go hand in hand with war taxes. It is from that point of view satisfactory to observe how broad a margin there is for it.

When the 374 millions sterling of current military expenditure has been deducted from the 1412 millions sterling of aggregate revenue there will be 1038 millions left to operate on. How much of this might be temporarily diverted from its ordinary uses to war expenses no State, with the possible exception of Germany, has yet attempted to forecast. In every case much would depend on the nature of the various revenues.

One characteristic feature is common to the revenues of all the Military Powers. It is their steady, and in some cases rapid, growth. If this were always due to the natural elasticity of the revenues, and could be regarded as a sign of prosperity among the taxpayers, it would be wholly satisfactory. But there is a less agreeable explanation of at least part of it. It may be, and

in fact is, largely due to heavier taxation. But whatever the cause—or the excuse—the State is everywhere absorbing, year by year, more of the hard-earned incomes of the community. During the past decade it has increased its levies by from 20 to 50 per cent, and the estimates for 1912, so far as they have been disclosed, foreshadow further increases.

In this competition the British and German Exchequers are well to the front. A month ago (December 1911) it was semi-officially announced at Berlin that the forthcoming Imperial budget would call for £134,244,000 to balance the ordinary receipts and expenditure, while the extraordinary receipts were estimated at £4,535,000. Total revenue £138,779,000. It is only seven years since the corresponding revenues were under a hundred millions sterling. The total of 1904 — which, it will be remembered, was the starting-point of the big navy policy—was only £98,588,000.

The Germans are thus paying in imperial taxes alone, without reference to federal or municipal taxes, about 40 millions sterling a-year extra for their naval ambitions. They have the grim satisfaction, however, of making us pay nearly as much. Between 1904 and 1911 our public revenue rose from £151,340,000 to £181,176,000 —an addition of close on 30 millions sterling, as against Germany's 40 millions. All the other European Powers, without exception, are in the same boat. During the past decade Russia has

had some fat years, in which her revenue showed enormous gains. From a total in 1902 of £213,136,000 it rose to £273,700,000 in 1910—an increase of 60 millions sterling in eight years.

In the same period all the other principal European revenues have expanded vastly. Austria's is 30 to 40 millions larger, and Hungary's fully 20 millions. It is well known also that the decade has been a prosperous one for Italy. Starting from a level of about 70 millions sterling, her public revenue has in exceptionally good years been over 100 millions. It was this run of fiscal prosperity that enabled her to carry out her long-cherished designs on Tripoli. Thus it is evident that all the Military Powers in Europe have plenty of money to spend. There is, unfortunately, very little financial check on their craze for Dreadnoughts. They can all get money somehow, and the old proverb, "easy come easy go," holds as good with them as with private spendthrifts.

It is not alone on big navies but on even more questionable objects that the taxpayers' money is being poured out like water on sand. Taxing a free and independent people used to be considered the most difficult part of the science of government, but nowadays it seems to be the easiest. It has become so easy, indeed, as to constitute a future danger. There will be no end to Dreadnought building while money is to be had *ad libitum* for the asking. Europe's fiscal prosperity may prove a curse to it in the end by thus ministering to its war fever.

SUMMARY OF CHAPTER V.

The confusion of ordinary and extraordinary budgets. Tabular comparison of the revenues and expenditures of the Military Powers. The four chief branches of expenditure—Army and Navy, Administration, State Railways, Posts and Telegraphs. Tabular survey of the expenditures of the "Triplice" and the "Entente Cordiale" groups. Similarity of their gross amounts but great diversity of details. Public debt charges treated as indirect military expenditures. Comparative populations and rates per head of expenditure. Military budgets and their respective armaments compared. Analysis of administrative expenditures of the two groups. Of their State railway, postal, and telegraph expenditures. Comparison of railway and postal receipts and expenses. Net railway and postal earnings compared with public debt charges. The world's three largest military budgets—British, German, and United States. Recent proofs of the difficulty of reducing army and navy estimates. Greater chance of their increasing than decreasing in the near future. The economy of arming thoroughly betimes. The folly of panic "votes of credit," which are invariably misspent. The greatest danger is an imperial policy combined with parochial finance. The war finance of a State should be a separate and distinct policy, with its own resources and reserves.

MODERN WARS AND WAR TAXES

PART II. THE MILITARY POWERS

CHAPTER V. THEIR EXPENDITURES

ENORMOUS as are the annual incomes of the Military Powers, they contrive to spend them all and a lot of borrowed money besides. Their ordinary revenues and expenditures are, as a rule, nicely balanced, most of them with a million or two on the right side, just to show how careful and exact Finance Ministers are nowadays. But there are still a few black sheep in the flock who keep up the old habit of overspending themselves. It may be that they are only a little more cynical than the other Finance Ministers, and do not see the necessity for balancing their budgets to a penny. None of the balances, in fact, is to be trusted too implicitly. In nearly every instance, not excepting our own, there is sure to be lurking in the background various kinds of irregular or exceptional expenditure.

Continental Ministers of Finance make a sep-

arate budget for extraordinary income and expenditure. A German budget has even more than one extra division. It distinguishes expenditure which is to happen only once and what may recur several times from the regular annual services. According to the summary of the annual revenues of the Military Powers in 1909, given at page 57, they exceeded 1412 millions sterling. This was overspent by five millions, the aggregate expenditures having amounted to 1417½ millions. The revenues and expenditures of the various Powers are set out on the opposite page.

There are four heads of expenditure which overshadow the others. The first is the Army and Navy, which absorbs more than a fourth of the whole 1417½ millions; the second is the Public Debt service, which claims nearly a sixth; the third is the Railway service, which takes up a seventh; and the last is the Posts and Telegraphs, which stand for an eleventh of the whole. The respective totals were—

Army and Navy . . .	£374,446,352
Public Debt	232,709,226
State Railways . . .	211,199,171
Posts and Telegraphs . .	131,208,749
	£949,563,498
Administration and General Expenses . . .	456,273,970
	£1,405,837,468

MILITARY POWERS — THEIR REVENUES AND EXPENDITURES IN 1909 COMPARED.[1]

	Revenue.	Expenditure.
	£	£
Germany—		
The Empire	131,645,600	130,746,100
Prussia	192,618,300	192,618,300
	324,263,900	323,364,400
Russia	252,634,100	245,142,400
Austria	116,487,600	120,152,100
Hungary	72,949,300	71,731,900
	189,436,900	191,884,000
The United Kingdom	181,716,000[1]	181,284,000[1]
France	158,337,200	161,362,300
Italy	87,169,300	83,894,100
Totals for Europe	1,193,557,300	1,186,930,200
Japan	57,422,600	57,421,700
United States	161,430,300	173,177,300
	218,852,900	230,599,000
Grand totals	1,412,410,100	1,417,530,200

Remembering always that our special object is to ascertain the military as distinguished from the civil values of these revenues and expenditures, we next proceed to classify the expenditures on the same principle as we have already done the

[1] 1909 and 1910 having been abnormal years with the revenue and expenditure of the United Kingdom, the estimates for the current year (1911-12) are used instead of the figures for 1909.

revenues—namely, by distinguishing the aggregates of the two groups of Military States in Europe. The tabular analysis subjoined shows, first, the cost of the various services of the "Triple Entente" Powers (Great Britain, France, and Russia); second, the corresponding services of the "Triplice" Powers (Germany, Austria-Hungary, and Italy).

A.—AGGREGATE EXPENDITURES OF THE TRIPLE ENTENTE POWERS, 1909-10.

	Great Britain.	France.	Russia.	Total.
MILITARY—	£	£	£	£
Army and Navy .	72,083,000	46,972,000	56,559,900	175,614,900
Public Debt	24,000,000	64,123,100	39,496,100	127,619,200
	96,083,000	111,095,100	96,056,000	303,234,100
Civil Services	64,119,000	32,923,300	92,125,700	187,168,000
PRODUCTIVE SERVICES—				
Posts and Telegraphs	21,082,000	10,732,200	5,356,000	37,170,200
State Railways .	...	6,612,200	51,604,700	58,216,900
	21,082,000	17,344,400	56,960,700	95,387,100
	181,284,000	161,362,800	245,142,400	587,789,200

B.—Aggregate Expenditures of the Triplice Powers, 1909-10.

	Germany and Prussia.	Austria-Hungary.	Italy.	Total.
Military—	£	£	£	£
Army and Navy .	61,249,700	44,489,800	21,374,300	127,113,800
Public Debt	27,798,900	29,477,000	24,684,200	81,960,100
	89,048,600	73,966,800	46,058,500	209,073,900
Civil Services	126,486,000	51,737,600	32,231,700	210,455,300
Productive Services—				
Posts and Telegraphs	31,391,000	9,572,700	5,282,400	46,246,100
State Railways .	76,438,800	39,013,500	321,400	115,773,700
	107,829,800	48,586,200	5,603,800	162,019,800
	324,364,400	174,290,600	83,894,000	581,549,000

As with their revenues, the expenditures of the two groups of Military Powers will cause no small astonishment by reason of the equality in their aggregates. At first glance there would seem to be a perfect equilibrium of financial power existing between the two rival groups. But, like many other things in military science, this is a superficial and misleading similarity. It entirely disappears in the maze of diverse and contradictory details which we encounter the moment we begin to examine the various branches of expenditure separately. Then, instead of similarities and equalities, we get contrasts and divergences.

Beginning with the branches which are of primary importance in this inquiry, namely, the Army and Navy and the Public Debt, the following table compares the respective annual charges of the eight Powers under these two heads. If it be asked why Public Debt and Army and Navy charges are bracketed together, the answer is that with most of the Military Powers war has been the chief contributor to national debt. In some countries—Prussia for instance, and in a smaller degree Russia—State railways and other productive undertakings are considerable offsets to the national liabilities, but, unfortunately, these are merely the exceptions which prove the rule.

A very large proportion of the national debts of the present day have had a military origin. In as far as that is true of them—and it would be very difficult to fix the percentage even in individual cases,—the interest on the debt should be treated as a military charge. Failing the means to fix an exact proportion of war debt to the whole, we lump the military and the national debt charges together. What this method loses in statistical precision it will gain in emphasising the contrast between military and civil expenditures. Another compensating circumstance is that, as loans will be a dominant factor in all future wars, the comparative burdens of existing national debts should be an essential consideration in military finance.

C.—Military and Debt Charges of the Military Powers, 1909-10.

1. The Triple Entente.

	Population.	Amount.	Per Head.
Great Britain . .	45,469,000	£96,083,000	£2 1 1
France . . .	39,252,000	111,095,100	2 16 3
Russia . . .	160,095,000	96,056,000	0 12 0
	244,816,000	£303,234,100	£1 4 9

2. The Triplice.

Germany . . .	63,879,000	£89,048,600	£1 8 0
Austria-Hungary .	51,250,000	73,966,800	1 8 8
Italy	34,270,000	46,058,500	1 7 0
	149,399,000	£209,073,900	£1 8 0

The vital differences between the two groups appear to be that the Triple Entente has nearly a hundred millions more of a population behind it, but as an offset to that advantage it has to spend about a hundred millions sterling more in armaments and debt charges than the Triplice group have to do. What rule, or lack of rule, governs these expenditures has never yet been discovered. The fact that they vary so widely may be little known, and it is certainly little appreciated as one of the vital conditions of the war finance of the future. Surely it is an anomaly worth inquiring into that Germany should be able to build and maintain a navy almost as strong as the British, and at the same time to train and arm five

millions of men on a military budget eleven millions sterling a-year less than the British budget, which provides only a quarter million of men fully trained and armed.

It is also a striking anomaly that France, which claims to be able to put four millions of men in the field in the event of war, gets along with an army and navy budget of £46,972,000, while Austria-Hungary has to pay £44,489,000 a-year for an army only two-thirds as large as the French, and a navy still smaller in comparison. Italy has so far been the lightest burdened both in respect of armaments and of debt. Her annual military charge has hitherto been under 22 millions sterling, but the Tripoli campaign will doubtless raise it to a very different figure.

We now proceed to the civil or administrative charges of the two groups of Powers.

CIVIL OR ADMINISTRATIVE CHARGES OF THE MILITARY POWERS, 1909-10.

	The Triple Entente.	The Triplice.
Great Britain . .	£64,119,000	...
France . . .	32,923,300	...
Russia . . .	92,125,700	...
Germany . . .	...	£126,486,000
Austria-Hungary .	...	51,737,600
Italy	...	32,231,700
	£189,168,000	£210,455,300

The £126,486,000 charged against Germany for "other services" is a rather startling amount, but the Empire is responsible for only a small portion of it. Prussia is answerable for more than three-fourths—namely, £101,950,000, and the Empire for only the other £24,536,000. As is well known, the Prussian Government is not merely the political head of the kingdom, but is also its industrial head. It is one of the largest landowners, mine-owners, and industrial producers. Its £101,920,000 of miscellaneous expenditure is chiefly due to industrial services. Against it should be set nearly 190 millions sterling which these same undertakings produced. After paying interest on capital a handsome surplus remained.

The last of our comparisons refers to State railways, posts, and telegraphs. Here the "Triplice" group leaves the "Triple Entente" Powers far behind their respective expenditures in this section, having been £162,019,000 and £95,387,000. The details are given in the following tables:—

[TABLE

STATE RAILWAYS, POSTS, AND TELEGRAPHS OF THE MILITARY POWERS, 1909-10.

	The Triple Entente.	The Triplice.
Great Britain	£21,082,000	...
France	17,344,400	...
Russia	56,960,700	...
Germany	...	£107,829,800
Austria-Hungary	...	48,586,200
Italy	...	5,603,800
	£95,387,100	£162,019,800

It may now be of some practical interest to strike a balance of the railway, postal, and telegraph receipts and expenditures.

STATE RAILWAYS, POSTAL AND TELEGRAPH RECEIPTS AND EXPENDITURES, 1909-10.

	Receipts.	Expenditures.
Great Britain	£25,714,000	£21,082,000
France	16,956,660	17,344,400
Russia	66,965,200	56,960,700
	£109,635,860	£95,387,100
Germany	£138,672,000	£107,829,800
Austria-Hungary	53,435,200	48,586,200
Italy	6,519,300	5,603,800
	£198,626,500	£162,019,800

Only one of the eight Military States of Europe has a first-rate commercial record, and that of

course is Germany. She alone, or rather the Empire and Prussia combined, can show a respectable profit on her railway and postal services. Her surplus for 1909-10 was not much under 31 millions sterling, while our surplus was under 5 millions. Russia came next to Germany and Prussia with net earnings from her railways, posts, and telegraphs of fully 10 millions sterling. The worst showing is that of the French railways and postal services. Instead of a profit they showed in 1909-10 a loss of nearly £400,000. The Italian surplus was a trifle of about £900,000, but still it was a surplus. The Austrian-Hungarian railway and postal department must be better managed than the French one, as it cleared close on 5 millions sterling in 1909-10.

More instructive, however, than a comparison of the net earnings of the individual States from railways, posts, and telegraphs, will be a comparison of the aggregate earnings of the Triplice and the Triple Entente groups. This branch of the inquiry may then be appropriately concluded with a comparison of the surplus earnings of the two groups from State enterprises and the total amount of their respective charges for public debt.

The "Triple Entente" group (Great Britain, France, and Russia) reported gross earnings of 109½ millions sterling, working expenses 95½ millions, and net receipts 14 millions. The Triplice group (Germany, Austria-Hungary, and Italy) earned nearly twice as much gross and

three times as much net as the other. Its aggregates were 198½ millions sterling gross, 162 millions of working expenses, and 36½ millions net profit. The total charges on the public debts of the three Triplice States were only 82 millions, so that it would not be far from true to say that one-half of the annual charges on their public debts were paid by their railway and postal services.

But such a statement would be very wide of the mark with regard to the Powers of the "Triple Entente." Their aggregate charges on their public debts in 1909-10 were 127½ millions (£127,619,000), consequently the 14 millions of net earnings from their railways, posts, and telegraphs would cover little more than a tenth of the amount needed for their debt service. The debt charges remaining to be paid out of taxation would be 113 millions a-year in the case of the "Triple Entente" Powers, but only about 48 millions in the case of the "Triplice."

This, like the preceding chapter, cannot properly close without some reference to the non-European Military Powers. It is claimed by the Americans that their navy is already the second in the world, and they are not to be content even with that position. The three leading Powers of the world —Great Britain, Germany, and the United States —are thus running each other very close in military expenditure. In the year 1911 the British army and navy cost, all told, £72,083,000. The

combined army and navy budgets of the German Empire are now close on 1300 million marks, or 65 millions sterling. The latest army and navy appropriations of the United States aggregate 279 million dollars, or 56 millions sterling — grand total, 193 millions.

It is not mere chance that brings these three military budgets so close together and gives them all an apparently irresistible tendency upward. In all three countries, but especially in Great Britain and Germany, the strongest possible resistance is continually being brought to bear against them. Religious, economic, and humanitarian objections constantly assail them. The Socialists in Germany and our own promiscuous peace party succeed now and then in giving the militarists a momentary pull up. But it is always only momentary, and, after a time, bloated armaments resume their progress.

Under the present Government this country has had an object-lesson in the practical impossibility of checking the growth of military expenditure for any length of time. One of the strongest pledges ever given by any political party at a general election was that of the Liberal leaders to enforce substantial reductions both in the army and navy. As to the sincerity of the men who gave that pledge there has never been any question. As to the ability and zeal with which they have laboured in their respective offices to redeem it there can be equally little

doubt. From their special points of view they have done the best perhaps that was possible. The result may therefore be regarded as a kind of irreducible minimum.

Then what does it amount to in pounds, shillings, and pence? The estimates of the Balfour Cabinet for 1905-6 had only three months to run when the change of Ministry took place, and no great retrenchment then was to be expected. The total cost of the army and navy in that year was a little over 60 millions sterling (£60,302,000). In the following year, 1906-7, the pruning-knife had full scope, but when every possible retrenchment had been made the total savings were just a trifle over 3 millions sterling. The cost of the two services in 1906-7 was 57 millions (£57,154,000), against 60 millions in the preceding year. Now it is up again higher than ever, and even this year's 72 millions cannot be regarded as a highest possible.

From now onward the Army and Navy estimates are quite as likely to continue growing as to begin contracting. From 70 to 80 millions sterling a-year is to be the probable range of our national defence bill during the coming decade. That is a fundamental and primary liability which we must look squarely in the face, asking ourselves how it is to be financed without risk of a breakdown in our fiscal system. That there will be breakdowns in the naval and military rivalry, which is fast approaching a crisis, needs no

prediction. Certain of the Great Powers are obviously overstrained, and will soon have to face the hard alternative of ruin or retrenchment. The wealthiest of them may have to submit to unprecedented burdens and sacrifices before emerging from the struggle. But the nation which comes out best will be the one that has most clearly foreseen the full extent of its task and has best prepared for it.

A new military programme, which may take years to carry out, and which will every year make increasing demands on the Exchequer, cannot be muddled through to advantage any more than a war can. In fact, the re-arming of the British Empire, even on the smallest scale now contemplated, may be a greater and more costly enterprise than one or two actual campaigns. In the first panic that comes along all that the naval and military authorities ask for will no doubt be cheerfully voted, be it five or eight or ten millions extra. It is somewhat doubtful, however, if they will ever be called to stricter account than hitherto for what they do with these lightly voted millions. And still more doubtful is it if adequate attention will be given beforehand, either by Parliament or the people, to the vital question how so much fresh revenue is to be raised without prejudice to the permanent prosperity of the Empire. In themselves five or ten millions a-year extra may seem a trifle to a nation accustomed to surpluses ranging up to

seven millions. Fiscal optimists may assure us that the natural growth of our revenue would almost cover it without additional taxation. So it might if we were on the threshold of a series of prosperous years, such as the last four or five have been. But if it should turn out, on the other hand, that we are on the threshold of a series of reactionary years, the miscalculation would have series consequences.

When an empire changes some fundamental part of its organisation, it is almost certain to upset its financial policy for a time at least. Administrative as well as military revolutions demand a system of finance adapted to themselves. William the Third required something better and more reliable than the financial makeshifts of the Stuarts. Pitt had to create special financial machinery to fight Napoleon with, and it in turn had to be set aside when Sir Robert Peel inaugurated his commercial millennium, with its premature watchwords, "peace, retrenchment, and reform." Peel's policy had its day also, and it is almost as obvious an anachronism now as Pitt's financial system had become in 1844. The parochialism of 1844 was undoubtedly cheaper in its direct results than the imperialism of 1911. But after half a century's experience we know now that it was penny wise and pound foolish. If imperialism costs more at the time, it may be true economy in the long-run. Had parochialism been less rampant in Downing Street half a century ago, complications in South

Africa with the Boers might have been avoided, which cost us half a million a-day to settle in the late war.

Imperialism is undoubtedly expensive at the outset, but the future risks it provides against may be, and in fact ought to be, well worth the money. If it were always exercised with reasonable prudence and business capacity, it would be the truest economy for an empire. Its chief weakness lies in the waste and extravagance which too often find shelter under it. Legitimate imperialism, in fact, requires a system of finance adapted to existing conditions and necessities. Without that it may easily degenerate into the hollow swashbucklerism which its opponents too indiscriminately declare it to be.

The greatest danger of the day, not for ourselves only but for the Germans and Americans as well, is an imperial policy combined with parochial finance. All the so-called imperial policies now masquerading before the world have that vital defect in a greater or less degree. Not one of them could bear the strain of a European war. Our own imperial policy was pretty severely tried by a three years' campaign in South Africa. Then what, it may be asked, will the imperial war finance of the future have to be? It ought to be separated entirely from the ordinary everyday finance of a nation, and based on the reserve of financial strength that is only to be drawn upon in the last extremity.

SUMMARY OF CHAPTER VI.

A large proportion of national debts is unpaid war bills. Tabular comparison of the national debts of the two groups of Military Powers, (*a*) Entente Cordiale, (*b*) Triplice. Wide diversities in the amounts of the various national debts, and in their rates per head of population. Relative credit of old and young States—the one advancing and the other declining. Immense changes in the past twenty years in the financial relations of the Military Powers. The growth of their national debts in the decade 1899-1909. The decade 1895-1905 had four great wars to finance, nevertheless its increase in national debts was moderate. The current decade 1905-1915 promises to be even more warlike than its predecessor, and to add even more to the national debts of the world. Young Turkey and its financial reorganisation. The railway finance of modern China. The national debt charges of the Military Powers. Their great diversity owing to different scales of national credit and varieties of amortisation.

MODERN WARS AND WAR TAXES

PART II. THE MILITARY POWERS

CHAPTER VI. THEIR DEBTS

In discussing the cost of armaments, few even among professional critics go beyond the direct expenditure on them from year to year. But in order to make up a complete account, various indirect charges should be added. A very large one to begin with is the annual charge on public debts inherited from past wars. Every national debt is largely made up of unpaid expenditure on wars. The proportions vary greatly, and ours is unfortunately large—one of the worst, in fact. It might be within the mark to say that three-fourths of the British national debt has been spent on fighting and helping other nations to fight.

The interest on it has ranged from four millions up to twenty-eight millions a-year, three-fourths of which would be 15¾ millions. The Army and Navy estimates ought to have some amount of that kind appended to them in order to show

the full cost of our armaments. All the other Military Powers are more or less in the same position. They have inherited from previous generations unpaid war bills, which are running on indefinitely at compound interest. The money applied to their service might have found remunerative employment in the industries of the country. This is no trifling consideration where the grand total involved may not be far from 10,000 millions sterling.

The eight Military Powers of the first class have for their own share of the world's national debt about 6000 millions sterling. At the end of 1909 the actual total for the six European Powers was 4858½ millions, and for the two non-European Powers (the United States and Japan) it was close on 800 millions. For possible increases in the past two years 350 millions will not be an over liberal allowance. In the table on page 95 will be found the details of population, gross amount of debt, and average per head of population for each of the eight Powers.

To be strictly accurate, the table should have included the debts of the Federal States of Germany, but on the other hand there is an advantage in having only Prussia and the Empire. The two together offer a better comparison with the United Kingdom in respect, first, of population, and secondly, of economic resources. If we regard population as one of the essential elements of military strength, Russia

A.—THE MILITARY POWERS: THEIR NATIONAL DEBTS IN 1909.

	Population.	Total Debt.	Per Head.
THE "ENTENTE CORDIALE" POWERS.			
France	39,252,000	£1,308,399,000	£33 6 7
Russia	160,095,000	905,462,000	5 13 0
The United Kingdom	45,469,000	762,463,000	16 15 5
Total	244,816,000	£2,976,324,000	£12 3 0
THE "TRIPLICE" POWERS.			
Germany—			
The Empire	63,879,000	£214,387,000	£11 14 2
Prussia		461,851,000	
		£676,238,000	
Austria	39,446,000	£447,712,000	14 17 5
Hungary	21,131,000	212,932,000	10 15 4
		£660,644,000	
Italy	34,270,000	£545,391,000	15 8 1
Total	158,726,000	£1,882,273,000	£11 17 0
The United States	88,926,000	£527,909,000	£2 6 1
Japan	53,273,000	271,559,000	5 1 11
Grand Total	5,445,739,000	£5,658,065,000	£10 7 2

from that point of view will be the strongest of the individual Powers. In 1909 she had 160 millions of actual and prospective taxpayers—nearly twice as many as the United States' total of 88,926,000, two and a half times as many as Germany's 63,879,000, three and a half times as many as the British 45,469,000, and four times as many as the Prussian 39,446,000 or the French 39,252,000.

The very close equality between France and

Prussia in numerical strength is worthy of special notice. It is one of the very few points of resemblance between the two nations. Wide and striking differences between them are much more easily discovered than similarities. What a contrast, for instance, between their national debts — France's 1308 millions sterling and Prussia's 462 millions! Another contrast offers itself in the uses that have been made of the borrowed money. While France's 1308 millions has been to a large extent sacrificed on the altar of military glory, Prussia has solid value for her 462 millions in State railways and other properties. But, strange to say, France continues to be the more flourishing country of the two. Her apparently crushing load of public debt sits lightly on her. Not only can she carry her own financial burdens easily, but she has millions of capital to lend to other countries. *Per contra*, the most urgent borrower in Paris is Berlin, the centre of the largest system of State railways in the world.

The national debt of Russia will perhaps be a greater surprise to the reader than that of France. Relatively to national wealth and resources, Russia's 905 millions sterling is as heavy a debt as France's 1308 millions. It would seem, therefore, that Russia's credit was being overstrained. Before jumping to that conclusion, however, we must remember that Russia is a country with a great economic

future, while France may hereafter find it increasingly difficult to live up to her historic past. The experience of Russia since the last of the national disasters she has had to surmount reveals unsuspected powers of recuperation and development. Advancing on the same economic lines as Canada, though with very different political methods, she is beginning to turn her millions of acres of virgin land and her millions of tons of mineral wealth into ready money.

Hitherto the national credit of old countries has always been rated higher than that of young ones. The reason appears to have been that investors and their advisers looked chiefly to realised wealth, and paid little attention to undeveloped resources, however vast. But latterly that one-sided practice has been modified. There is now a disposition in the financial world to discount future possibilities—sometimes to overrate them. It may not be long before Russia is exploited as vigorously as Canada has been in the past decade. Then her 905 millions sterling of public debt may look less formidable than it does at present.

But what of our own 762 millions, plus two or three hundred millions more of disguised liabilities of various sorts? The reader's first impression may be thankfulness that it is no longer the largest national debt in the world. For a century and a half it held that evil pre-

eminence; but after 1870 it gave place to France, who still holds it, and will not, we trust, be deprived of it for many years to come. It may be a grim satisfaction to us that not only have France and Russia gone ahead of us in mortgaging their resources, but the three other European Powers seem to be also overhauling us pretty rapidly. The combined debts of Prussia and the German Empire are now barely a hundred millions smaller than our own. Those of Austria and Hungary are exactly a hundred millions less. Even Italy has contrived to get up within two hundred millions of the British level.

These are immense changes which have taken place during the past twenty or thirty years in the financial relations of the Military Powers. Even in the past decade there have been considerable alterations in their respective debts. Their aggregate amount has increased by fully 1350 millions sterling, or 30 per cent. In 1899, when the South African War was just beginning, it was 4318 millions; and in 1909, as shown above, it exceeded 5658 millions. The three heaviest borrowers during that period were Russia, Germany, and Japan, whose increases during the decade were 282, 238, and 219 millions sterling respectively. The Russian and Japanese borrowing is easily accounted for; much less so the German and Prussian. Why has Germany been piling up debts at the rate of ten millions

sterling a-year, and Prussia at the rate of fourteen millions a-year, for ten years on end? Altogether the following table is significant:—

B.—The Military Powers: Growth of their National Debts in 1899-1909.

	1899.	1909.	Increase.
	£	£	£
France	1,079,030,000	1,308,399,000	229,369,000
Russia	623,365,000	905,462,000	282,097,000
The United Kingdom	638,920,000	762,463,000	123,543,000
Germany—			
The Empire	114,851,000	214,387,000	99,536,000
Prussia	323,121,000	461,851,000	138,730,000
	437,972,000	676,238,000	238,266,000
Austria	362,529,000	447,712,000	85,183,000
Hungary	185,163,000	212,932,000	27,769,000
	547,692,000	660,644,000	112,952,000
Italy	529,567,000	545,951,000	16,384,000
Japan	51,845,000	271,559,000	219,714,000
The United States	398,385,000	527,909,000	129,524,000
(Cash in Treasury)	167,321,000	323,137,000	155,816,000

In this one decade the Triple Entente Powers added to their debts 635 millions sterling and the Triplice Powers 367½ millions. The two non-European Powers (Japan and the United States) contributed 349 millions as their share, both of them having had wars to finance. The grand total of this new borrowing was close on 1352 millions sterling, making an average of 135 millions per annum. A very significant

feature of it is that the chief part of it took place toward the close of the decade. Such developments are an invariable sequel to a big war, and they inevitably followed the Russo-Japanese duel. We can hardly hope to escape a similar sequel to the wars now in progress.

Previous to the Russo-Japanese war there had been a period of very moderate borrowing by Governments generally. The national debts of 1905 compare creditably with those of ten years before. The fifteen principal States increased their indebtedness by less than 800 millions sterling, of which the eight Military Powers secured 594 millions. Altogether, the decade 1895-1905 is a pleasing contrast to 1899-1909.

This is all the more remarkable as 1895-1905 was by no means a millennial period. It had four first-class wars to provide for, and yet its new borrowing aggregated only 800 millions against the 1352 millions sterling of the decade 1899-1909. It was likewise less general, having been limited to half a dozen States which had the excuse of war or other emergency expenditure. Against this may be set several States which materially reduced their indebtedness during the decade. The majority, however, remained at or near their old level. The following comparative totals for 1895 and 1905 are taken from the 'Stock Exchange Official Intelligence' for 1907:—

C.—THE MILITARY POWERS: GROWTH OF THEIR NATIONAL DEBTS IN 1895-1905.
(In Millions Sterling.)

	1895.	1905.	Increase.
France	1099	1090	9[1]
Russia (in Europe)	711	747	36
The United Kingdom	652	789	137
Germany—			
The Empire	110	163	53
Prussia	313	361	48
Austria	391	389	2[1]
Hungary	186	198	12
Italy	490	517	27
Japan	42	214	172
United States	335	455	120
	4329	4923	594

[1] Decrease.

In this exceptional decade, 1895-1905, the minor States appear to have been more active borrowers than the Military Powers. Spain, Portugal, Belgium, and China were, in fact, the most importunate borrowers of those days, as the following figures attest:—

(In Millions Sterling.)

	1895.	1905.	Increase.
Spain	175	249	74
Portugal	154	179	25
Belgium	89	126	37
China	23	115	92
	441	669	228

In 1905 there were thirty-three States whose stocks had a market in Europe. Of these less than half—to be exact, only fifteen—were above the hundred millions sterling line. In 1909 the number of Government debts of international importance was thirty-one. Only thirteen of them exceeded the hundred millions. France and the United Kingdom were still at the head of the list, but since then Russia has mounted into the second place. The national debts of that day were remarkable for the number of unpaid war bills they contained. The British debt had during the decade 1895-1905 increased by 137 millions sterling—a legacy from the Boer war. That of the United States had gone up 120 millions in the war with Spain, and Spain herself had 74 millions of her expenditure in the same quarrel left on her hands. China had two war bills still to clear off, amounting to 92 millions sterling. Japan also had two, the effect of which had been to increase her debt fivefold.

1895-1905 was, in short, a great fighting decade —the greatest in modern history and the most expensive. It had to finance four successive wars —the Chino-Japanese of 1894, the Spanish-American of 1897, the South African of 1899-1902, and lastly, the Russo-Japanese campaign of 1904. They added at least 600 millions sterling to the national debts of the belligerents, and probably cost them as much more in war taxes. For such a warlike decade as was 1895-1905 an

increase of 800 millions sterling in the principal national debts of the world was not to be wondered at. Under the circumstances it was very moderate, but its moderation was partly due to the fact of the Russian accounts for the war of 1904 not having yet been made up. They would have added to it fully 200 millions sterling, raising the grand total in round figures to one thousand millions.

One thousand millions of war debt in a single decade is a fine moral for Mr Norman Angell to drive home. But what do we find in real life? That the subject has been completely forgotten even by the financiers who issued the war loans and the investors who took them up. Hardly five brief years had passed before another epidemic of wars broke out. Two are now in full swing, and, counting the Royalist revolt in Portugal, we might say three. The current decade — 1905-1915—promises to be as warlike as its immediate predecessor, and perhaps more so. It will certainly make larger additions to the debts of the European Powers, as apart from actual war there will be enormous and ever-growing outlays on armaments to pay for, or rather to borrow for.

One conspicuous absentee from the above lists claims a passing reference. Turkey will no doubt be missed from it, and the cause of her absence deserves mention, seeing that it is to the credit both of herself and her financial backers. In the decade of 1895-1905, Turkey not only

did very little fresh borrowing, but her financial guardians put her through a reorganising and regenerating process which ended in reducing her foreign debt by fully 40 millions sterling—namely, 167 to 125 millions. No doubt a good deal of the reduction was merely a transfer to the local money-lenders, which accumulated in the form of floating debt for a few years and was then converted back into sterling. But at the time it was a great relief to the Turkish Treasury, and the Young Turks are still enjoying the benefit of a financial reform which is one of the few happy memories of Abdul Hamid's reign.

China's entry into the realms of high finance was much later than Turkey's. Indeed the Celestial Kingdom is the youngest born of international borrowers. It was being vigorously exploited by foreign concessionaires and loan-mongers when the recent insurrection broke out. That has upset their brilliant plans, and threatens to raise some serious obstacles in the path of the universal peace on which politicians and high financiers may have been counting somewhat prematurely. China's first big round of borrowing followed her war with Japan. A second had to be made to enable her to settle accounts with the Foreign Powers after the Boxer rebellion of 1902. The third had a better object—namely, the railway development of the Empire. When this latest uprising is put down, or otherwise disposed of, there will doubtless be a fourth issue of Chinese bonds.

Returning to our original tables which showed the national debts of the Military Powers as they stood in 1909, we may next examine with advantage the annual charges of the various debts These are briefly summarised below.

D.—The Military Powers: their National Debt Charges, 1909.

	Total Annual Charge.	Per Head.
The "Entente Cordiale" Powers.	£	£ s. d.
France	46,931,000	1 3 10
The United Kingdom	21,757,000	0 9 7
Russia	39,496,000	0 4 11
	108,184,000	0 9 0
The "Triplice" Powers.		
Germany—		
The Empire £8,382,000		
Prussia 19,139,000		
	27,521,000	0 9 9
Austria £19,932,000		0 13 3
Hungary 12,412,000		
	32,344,000	0 12 9
Italy	18,066,000	0 10 6
	77,931,000	0 10 8
The United States	4,360,000	0 1 0
Japan	18,671,000	0 7 0
Grand total	209,146,000	0 7 8

In this connection the United Kingdon makes

a better show than in any of the previous tables. Though in capital amount its debt stands third, in a comparison of debt charges it is only fifth. France has the heaviest burden of interest to bear, Russia the next, then Austria-Hungary, fourth Germany, fifth the United Kingdom, and last of all Italy. At the present moment the fact may not be without significance that Italy has nearly as much money to find for the interest on her national debt as Great Britain has. Though her debt is less than three-fourths of ours, she has to pay within three millions sterling of our interest charge.

Another curious anomaly is that, though the combined debts of the German Empire and of Prussia are only ninety millions less than the British debt, their annual charge is nearly six millions more. The respective totals in 1909 were £27,521,000 and £21,757,000. For a capital sum of 676 millions sterling £27,521,000 is very high interest to pay. An average of 3½ per cent on that amount would only come to £23,600,000. For explanation of this discrepancy we must either assume that a considerable amount of unfunded debt existed outside of the 676 millions of funded, or that several millions a-year are being redeemed.

This, however, is a small matter compared with the really ominous and uncomfortable feature of the German-Prussian debts—namely, the terrible rate at which they both appear to be growing.

Why should the Imperial Government be borrowing at the rate of ten millions sterling a-year and the Prussian Government at the rate of fourteen millions a-year? Have they not soldiers enough, and guns enough, and warships enough to allow them to sleep peaceably in their beds, as a late First Lord of the Admiralty told us in the German Emperor's hearing that we might all do? What do they fear from us or from our Norman Angellic Government? Is it at all likely that Lord Haldane and the gallant remnant of his Territorials will attempt a raid on Hamburg or Bremen? His lordship would be the first to repudiate such a bloodthirsty and unpleasant suggestion.

SUMMARY OF CHAPTER VII.

The eight Military Powers have to bear 716 millions sterling of taxation, of which 30 per cent is collected in Customs duties and 70 per cent in internal taxes. The United Kingdom is the heaviest taxed both ways, but if State monopolies be included, France is the heaviest. Striking variations in the proportions of taxes to total revenues. Prussia, the lowest, 12.93 per cent; United Kingdom, 79.90 per cent. Rapid increase of British taxes. Are they approaching the taxable capacity of the country? The new financiers breaking away from national methods and traditions. Mr Lecky on the disturbance of national credit by excessive taxation. Mr Gladstone on commencing a war with increased taxation and reserving war loans for a later stage. The certainty that in any first-class war of the future both taxes and loans will be strained to the utmost. The wasteful financing of the American Civil War. The Military Powers should keep a watchful eye on each other's taxes — both the annual amounts and the rates per head. National finance, instead of growing more precise and scientific, becomes more confused and incoherent. Emotional budgeteering.

MODERN WARS AND WAR TAXES

PART II. THE MILITARY POWERS

CHAPTER VII. THEIR TAXES

BLOATED armaments involve bloated budgets and heavy taxes. Their growth entails a corresponding growth of taxation. This is the only practical check on them, and the wonder is that it has not begun to operate sooner. There must be in the minds not only of statesmen but of ordinary taxpayers a keen sense of the military risks to which, in spite of all our arbitration treaties and Hague Conferences, nations are still exposed to induce rational men to endure such a crushing burden of apparent extravagance and waste. But there can be no doubt of the fact that it is endured patiently, and that no possible alternative is yet in sight.

A reference to Table A in our second chapter will show that in 1909 the eight Military Powers levied taxation of various kinds to the huge amount of 716 millions sterling. We have now

to inquire how that money was raised, what the relative levies were on the various States, how it was borne by the taxpayers, and what margin of taxable capacity remained for future use, more especially as a provision for national emergencies.

Of the 716 millions sterling, 218 millions, equal to 30 per cent, was raised by Customs duties or taxation on foreign goods, and 498 millions, or 70 per cent, by internal taxes, including Excise. The distribution of Customs duties among the eight Powers was very irregular, as the subjoined table indicates.

THE MILITARY POWERS: THEIR CUSTOMS REVENUES IN 1909.

United States	£60,142,387
United Kingdom	33,687,000
Germany	31,707,157
Russia	27,431,700
Austria-Hungary	23,494,283
France	19,834,280
Italy	13,639,358
Japan	4,837,624
	£214,773,789

The above order is not at all what might have been expected from the Customs tariffs of the several States. To find Free-trade England standing alongside of Protectionist America as the largest raiser of revenue from Customs duties is indeed a surprise. But the explanation is simple. People confuse low tariffs with light

fiscal burdens, but here we find that the reverse is the case. We pay Customs duties on a small number of articles, but on them we pay heavy rates—the 100 per cent tea-duty for instance. What really matters is the annual amount of the levy, and in our case it is exceptionally large. That will be made very clear when we reach the table of Customs yields per head of the population.

A whole series of surprises await us in comparing our Customs duties with those of France, Germany, and other Protectionist countries. France, notwithstanding food taxes, about which we hear so much, levied less than twenty millions sterling on imported goods, as compared with our 33½ millions. Germany, with a population of over sixty millions against our forty-five millions, levied only 31¾ millions sterling of Customs duties against our 33½ millions. The 51 millions of Austrians and Hungarians pay on their imports only two-thirds as much as 45 millions of British consumers do. The 35 millions of Italians, notwithstanding their so-called protective tariff, are taxed through the Custom-house to the extent of only £13,636,000 a-year—barely 40 per cent of our British contributions. A tabulated comparison of the averages per head of Customs duties levied in the eight States will show better than any tariff where people are most heavily taxed on their imports.

THE MILITARY POWERS: THEIR AVERAGES PER HEAD OF CUSTOMS DUTIES, 1909.

	Population.	Customs Revenues.	Per Head.
		£	*s.* *d.*
United States .	88,926,000	60,142,387	13 6
United Kingdom .	45,469,000	33,687,000	14 10
Germany . .	63,879,000	31,707,157	10 0
Russia . . .	160,095,000	27,431,700	3 5
Austria-Hungary .	51,251,000	23,494,283	9 0
France . . .	39,252,000	19,834,280	10 1
Italy . . .	34,270,000	13,639,358	8 0
Japan . . .	53,273,000	4,837,624	1 10
	536,415,000	214,773,789	8 0

The internal or domestic taxes of the Military Powers are classified below in the order of their magnitude.

THE MILITARY POWERS: THEIR INTERNAL TAXES IN 1909.

The United Kingdom .	£118,268,000
France	91,851,802
Austria-Hungary . . .	71,561,261
Germany (the Empire and Prussia)	56,348,176
The United States . . .	49,242,529
Russia	45,421,800
Italy	36,938,604
Japan	27,993,886
	£497,626,058

It should have a sobering effect on our levelling

down financiers to observe that the British people have to pay about one-fourth of the whole amount of domestic taxes levied by the eight Military Powers, although their share of the population is only one-eleventh. Russia, with three and a half times the number of people, levied on them less than 40 per cent of our domestic taxes. Germany's domestic taxes are only one-half of ours, although she has twenty millions more people to tax. The United States, with exactly double our population, is content with less than our revenue from internal taxation. France, with her 1308 millions sterling of national debt against our 765 millions, can get along with 27 millions sterling less revenue from internal taxes. Italy, though in some respects the most heavily taxed country in Europe, levies less than a third of our taxes on home industry and property.

The hard lot of the British taxpayer, and the fiscal oppression he has to bear, are strikingly shown in the following comparison of averages per head of domestic taxation :—

[TABLE

THE MILITARY POWERS: AVERAGES PER HEAD OF DOMESTIC TAXATION, 1909.

	Population.	Internal Taxes.	Per Head.
United Kingdom .	45,469,000	£118,268,000	£2 12 0
France . . .	39,252,000	91,851,802	2 6 9
Austria-Hungary .	51,251,000	71,561,261	1 8 0
Germany . .	63,879,000	56,348,176	0 17 8
United States . .	88,926,000	49,242,529	0 11 9
Russia . . .	160,095,000	45,421,800	0 5 8
Italy . . .	34,270,000	36,938,604	1 1 6
Japan . . .	53,273,000	27,993,886	0 10 6
	536,415,000	£497,626,058	£0 18 7

In the next table the internal taxes and Customs duties are combined, to show their respective totals and their averages per head of the population.

TOTAL TAXATION IN 1909.

	Population.	Total Taxes.	Per Head.
United Kingdom .	45,469,000	£151,955,000	£3 6 3
France . . .	39,252,000	111,686,082	2 16 1
United States . .	88,926,000	109,384,916	1 4 7
Austria-Hungary .	51,251,000	95,055,544	2 12 1 1 10 11
Germany . .	63,879,000	88,055,333	0 18 4
Russia . . .	160,095,000	72,853,500	0 9 0
Italy . . .	34,270,000	50,577,962	1 9 6
Japan . . .	53,273,000	32,831,510	0 12 4
	536,415,000	£712,399,847	£1 6 7

A comparison distinguishing the proprietary revenues (State railways, mines, &c.) from the fiscal revenue proper (taxes, duties, &c.) will further elucidate the relative positions of the Military Powers as regards their taxable capacity.

THE MILITARY POWERS: THEIR AVERAGES PER HEAD OF TAXATION AND PROPRIETARY REVENUE.

	Total Revenue per Head.	From Taxes.	From State Properties.
Prussia . .	£4 17 8	£0 12 7	£2 10 6
France . .	4 0 8	2 16 1	0 1 6
Hungary . .	3 9 9	1 10 11	1 13 5
Austria . .	3 6 10	2 2 1	0 19 4
United Kingdom	3 18 0	3 6 3	...
Italy . . .	2 10 10	1 9 6	1 0 10
Germany . .	2 1 2	0 18 4	0 1 1
United States .	1 16 4	1 4 7	...
Russia . .	1 11 6	0 9 0	0 7 3
Japan . . .	1 1 7	0 12 4	0 1 8

Another instructive test of the comparative fiscal strength of the Military Powers is the proportion of their revenues from taxes to total revenues. This gives some remarkable results, as shown in table, p. 116.

One of the few satisfactory tendencies in the financing of the Military Powers is the general increase in their non-fiscal revenues. This may often, though not necessarily, operate for the relief of the taxes. In certain fortunate cases

THE MILITARY POWERS, 1909: THEIR RESPECTIVE PROPORTIONS OF TAX REVENUE TO TOTAL REVENUE.

	1899.	1909.	Decrease.
	Per cent.	Per cent.	
United Kingdom	84.43	79.90	4.53
Austria . .	90.00	75.20	14.80
France . .	74.40	70.53	3.87
United States .	78.49	67.76	10.73
Italy . . .	62.56	58.02	4.54
Japan . . .	58.37	57.58	0.79
Germany . .	44.76	47.97	3.21[1]
Hungary . .	54.41	43.35	11.06
Russia . .	47.23	28.84	18.39
Prussia . .	13.74	12.93	0.81

[1] Increase.

it affords very substantial relief. The most remarkable illustration of this is the Prussian 12.93 per cent of tax revenue against 87.07 per cent of proprietary earnings. At the opposite end of the scale the United Kingdom figures with nearly 80 per cent of its total revenue derived from taxes, and only 20 per cent of proprietary income. The latter presumably refers to the net earnings of the Post Office, the dividends on our Suez Canal shares, and a few windfalls from the Woods and Forests Department.

Germany, it may be observed, is the only State in the list whose proportion of fiscal to total revenue is increasing. In the decade 1899-1909 it advanced fully 3 per cent. The explanation of such an exceptional movement may be the large

additions which have been made lately to the Imperial taxes. In 1910 a new batch of them, estimated to produce nearly 24 millions sterling, came into operation, and the percentage of fiscal to total revenue was no doubt considerably raised thereby. But Germany has not all the new taxes to herself. Another champion spender among the Military Powers keeps her in countenance. Between 1908-9, the first year of the Lloyd George millennium, and this year of grace 1911, British taxation has been increased by fully twenty-six millions sterling—namely, from £125,550,000 to £151,955,000.

Several disquieting truths shine out from the foregoing tables. First, that the United Kingdom is the most heavily taxed of all the Military Powers; second, that its taxes are being multiplied and magnified at an abnormal rate; third, that it must be rapidly approaching the limit of its taxable capacity; fourth, that such financial conditions must have a dangerous effect on its military strength and efficiency. To these reflections may be added a more general but also a more serious one,—that the authors of these fiscal innovations are breaking away from the oldest and best traditions of our national finance. They would have found their strongest critics in the Chancellors of the Exchequer who created our golden age of fiscal administration. Their most

merciless repudiator would have been Mr Gladstone himself. He had some very striking methods of bringing home to the House of Commons the effect of increasing expenditure. One was to express the amount of the increase in terms of income-tax. Every million sterling added to the Estimates had its equivalent in so many extra pence in the £ for income-tax payers. In his Budget speech of 1860 he worked out this instructive analogy—

> In 1853 the whole amount voted for Supply services of every description (Army, Navy, and Civil Service) and for the miscellaneous charges on the Consolidated Fund was £24,279,000. This sum represented the proportion of the whole public charge or expenditure that was under the general control of Parliament. But in 1860-1, instead of £24,279,000, these charges amount to £39,000,000, showing an increase in our expenditure of £14,721,000. This increase is, as nearly as may be, the exact representative of an income-tax of 13½d. in the £.

Another distinguished champion of sound British finance was Mr Lecky, the historian. In one of his letters quoted in Lord Morley's 'Life of Gladstone' he wrote—

> Nations seldom realise till too late how prominent a place a sound system of finance holds among the vital elements of national stability and wellbeing; how few political changes are worth purchasing by its sacrifice; how widely and seriously human happiness is affected by the downfall or the perturbation of national credit, or by excessive, injudicious, and unjust taxation.

On one important question of finance Mr Gladstone was throughout his whole public life both consistent and emphatic. It was the advisability, or, as he sometimes put it, the national duty of paying as large a proportion as possible of war expenditure out of revenue. In one of his speeches in 1854 on the financial measures proposed for the Crimean campaign he declared that it was the duty as well as the policy of the country "to make in the first instance a great effort from its own resources." Eight years later, in a letter to Sir Stafford Northcote (August 11, 1862), he elaborated this doctrine in the following characteristic fashion :—

The general question of loans and taxes for war purposes is one of the utmost interest, but one that I have never seen worked out in print. Assuming as *data* the general principles of our financial system, and by no means denying the necessity of loans, I have not the least doubt that it is for the interest of labour, as opposed to capital, that as large a share as possible of war expenses should be defrayed from taxes. When war breaks out the wages of labour on the whole have a tendency to rise, and the labour of the country is well able to bear some augmentation of taxes. The sums added to the public expenditure are likely at the outset, and for some time, to be larger than the sums withdrawn from commerce. When war ends, on the contrary, a great mass of persons are dismissed from public employment, and, flooding the market, reduce the rate of wages. But again, when war comes, it is quite certain that a large share of the taxes will be laid upon property, and that in war property will bear a larger share of our total taxation than in peace. From this it seems to

follow at once that up to the point at which endurance is practicable, payment by war taxes rather than by taxes in peace is for the interest of the people at large.

Most of these dicta, sacred and precious as they were to the faithful of their own time, would probably be pooh-poohed by our new financiers as quite out of date. The new financiers are rapidly disqualifying themselves and the nation for making in any emergency "a great effort from our own resources." To ardent believers as they are in Mr Norman Angell's "Great Illusion," it would seem sacrilege to say that "when war breaks out the wages of labour have on the whole a tendency to rise." In the Gladstone finance of half a century ago there is not a trace of the new gospel which is being so diligently preached just now by Cabinet Ministers from the Lord Chancellor downwards,—the gospel that modern war is bound to make such a financial mess for both sides that neither victor nor vanquished can derive any real benefit from it. Far from agreeing with that view, Mr Gladstone regarded war as being in some ways good for business, and especially for labour.

In any first-class war of the future it is certain that both loans and taxes will be strained to the utmost. The South African War, though it cost a good hundred and fifty millions sterling, was not big enough to put a very heavy strain either on our credit or our taxable capacity. The American Civil War was a much better object-

lesson in military finance. The Federal Government began by imposing in the first year (1861) war taxes to the amount of $41,000,000. Next year these had to be increased to $62,000,000; in the third year to $112,000,000; in the fourth year to $264,600,000; in the fifth year to $333,700,000; in the sixth and last year to $558,000,000. Concurrently the war loans grew from $23,700,000 in the first year to $433,600,000 in the second year, and so on until in the fifth year they reached the tremendous total of $864,800,000.

This American example of "muddling through" cost in the long-run over four thousand million dollars, or eight hundred millions sterling. One-third of the amount was raised by war taxes ($1,372,100,000), and the other two-thirds ($2,706,300,000) by loans. At the outset of the war various official reports laid down most plausible and orthodox rules for the guidance of the Treasury. Secretary Chase himself had the best possible theories on the subject, but they did not work out as he expected them to do. His special report of July 1861 contains many wise reflections, which, though they were but poorly realised in practice, may be worth recalling, even after the lapse of half a century. Our up-to-the-hilt taxers may learn from them the advantage of having a large margin of emergency taxes to fall back upon.

These statements illustrate the great importance of providing beyond all contingency for ordinary expendi-

tures, for interest on debt, and for the largest possible amount of extraordinary expenditures by taxation. In proportion to the amount raised upon the necessary sums for ordinary demands will be the diminution of debt, the diminution of interest, and the improvement of credit. It is hardly too much — perhaps hardly enough—to say that every dollar raised for extraordinary expenditure or for reduction of debt is worth two in the increased value of national securities, and increased facilities for the negotiation of indispensable loans.

But in order to be able to raise the largest possible amount of taxation in a national emergency—military or otherwise—the normal taxation in time of peace must be reasonable and endurable. It should also bear a just proportion to the normal taxation of other States—above all, to that of the other Military Powers. That British taxation does not do so at the present moment, and that it becomes more disproportionate year by year, is provable by long arrays of official figures.

There are in the world twenty-two States which may be fairly compared with each other in respect of their tax levies. The latter range from 12s. 4d. per head for Japan to £2, 16s. 1d. per head for France, £2, 12s. 1d. for Austria, £3, 6s. 3d. for the United Kingdom, and £1, 10s. 11d. for Hungary. If these four highly-taxed countries get anything like value for their levies, the Japanese must be receiving wonderful value for the 12s. 4d. per head which their Government costs them. One can understand a great difference in the case of an impecunious State like Turkey, with only the wreck of an

army and the ghost of a navy, but Japan has a national organisation equal to that of any European Power, though it costs only one-fifth as much per head of the population.

Averages per head are of course one-sided comparisons. To give them practical value the relative resources of each country should be taken into account. But here again our science of national finance breaks down for lack of indispensable data. National resources have yet to be standardised. The crude statistics available have, however, a certain degree of significance for us. They show how heavily handicapped some countries are in the economic struggle for existence by their national finance. Crushing debts and oppressive taxes must be serious obstacles to profitable production. What harm they do is yet but dimly suspected: the question has still to be systematically investigated. They may be even greater drawbacks to the military efficiency of the nation. To the individual producer it must make a difference if he and his workpeople are taxed at the rate of 12s. 4d. per head, as in Japan, or of £3, 6s. 3d., as in the United Kingdom.

This is one of the coming questions of national finance. It only looms as yet on the horizon, but very shortly it may be upon us in earnest. When we get to close quarters with it we may find that it cannot be solved without a reconsideration of our financial methods generally, and those relating to national finance in particular. It is becoming obvious that national finance, instead of

gaining as it grows older in scientific precision and stability, is becoming more confused and incoherent. The political conditions of the past half century sufficiently account for this deterioration. They are loose, spasmodic, and unsettled compared with what they used to be. In all popular Legislatures, and not least in the House of Commons, there is a marked decline of plain hard sense in money matters, and an equally marked increase of misleading sentiment and emotion.

This is not only observable in private members, and especially in the latest arrivals, but even Chancellors of the Exchequer are not free from it. Nothing more incompatible with scientific finance than a full-blown Limehouse budget is conceivable. In its inception, its spirit, its objects, and its methods it is sentimental rather than financial. Its inevitable effect is to bewilder and befool the taxpayers rather than to guide and enlighten them. Already it has completely mystified them as to the proper object of taxes. They no longer regard taxes as sacred to the needs of public administration. They have been taught that they are now a national fund for the endowment of poverty and incapacity. They are encouraged to look forward to every succeeding Budget as a cornucopia from which blessings are to be distributed broadcast by a Heaven-born Chancellor of the Exchequer.

SUMMARY OF CHAPTER VIII.

The two leaders of Europe in military expenditure. Vital points in a comparison of the British and German military budgets. The cost of armaments is spread over the army and navy and that unknown portion of the public debt due to war and war preparations. Tabular comparison of British and German army charges, 1893-1911. The same for the two navies. The same for their public debt charges. Army, navy, and public debt charges of each country combined. Mr Lloyd George's statement in the House of Commons (July 15, 1910) that "the countries of the world are spending annually 450 millions sterling on machinery of destruction." Of this enormous amount Great Britain has to pay 93 millions a-year, or fully 20 per cent, and the German Empire 76¼ millions a-year, or 17 per cent. Between them they pay 169¼ millions a-year, or 37½ per cent of the whole. Since 1893 British naval expenditure has aggregated 559½ millions sterling, as compared with a German aggregate of 208½ millions. The respective annual averages have been 31 millions and 11½ millions. The excessive cost of depreciation of a large navy as compared with a small one. The "scrapping" policy, how it affects Germany. Anglophobia in the German Reichstag. Testing the two fiscal policies. The supreme question of financial strength for purposes of military defence.

MODERN WARS AND WAR TAXES

PART II. THE MILITARY POWERS

CHAPTER VIII. BRITISH AND GERMAN MILITARY BUDGETS

For nearly twenty years two European nations have been setting the pace in military expenditure to the rest of the world. Present appearances all indicate that they will continue to do so for twenty years to come. Great Britain and Germany are not only building Dreadnoughts against each other. That is not the whole range and scope of their no longer veiled rivalry. They are working up military budgets against each other—a more exhausting and deadly process than war itself, though so far very little account has been taken of it.

Naval experts deal with the question of "Dreadnoughts"; aeronauts may discuss the future possibilities of airships; military authorities bewilder us with armies new and old on paper; but we seem to have all forgotten the financial side of the

problem. This has hitherto received the smallest amount of attention, though it deserves the greatest. It has been relegated to the eleventh hour, though, in fact, it should come first. War or no war, it is perfectly certain that Great Britain and Germany are committed to a prolonged rivalry in armaments. How are they to find the money for it, and which of them is likely to have the greater difficulty in doing so?

It is, of course, impossible to get definite and positive answers to such questions. The best we can hope for is clues more or less direct. We can compare the military expenditures of the two countries during the period in which their rivalry has been developing, and we can draw our own conclusions as to certain points of vital consequence.

The first of these vital points is the comparative weight of the fiscal burdens which the two countries are imposing on themselves and on each other.

The second vital point is the rates at which the two burdens are growing.

The third is the return which the rivals are respectively obtaining for their expenditures.

The cost of armaments is spread over three branches of modern public expenditure — the Army, the Navy, and the Public Debt. We shall first deal with these individually, and then show their combined effect. The comparison will extend over a period of eighteen years, beginning

with 1893 and ending with 1911—the latest complete year available. Three special years are selected from the eighteen—1898, the last year before the South African War; 1903, the first year after the close of that war; 1906, the year in which an abortive attempt was made to check the growth of military expenditure. While these years show the intermediate growth of the two military budgets, the first and last will enable us to measure the growth of the whole period.

The first of the three parallel columns in the following tables gives the British expenditures during the years named; the second gives the corresponding German aggregate; and the third shows the excess of the one over the other. Too often the excess is on the British side, and its grand total on the eighteen years is staggering. Its one redeeming point is that it is not increasing, but rather tending the other way. However furiously we spend, Germany seems to always go one better. Already she has greatly diminished our unenviable lead in naval expenditure, while she still keeps well ahead of us on the army side. (For comparative cost of the two armies see opposite page.)

It should be needless to remind the reader that the first two columns of figures in the table represent two totally different military forces. In numbers and in organisation there is no comparison between them corresponding in any way with their respective costs. Germany, for an average

ARMY CHARGES, BRITISH AND GERMAN, 1893-1911.

	British.	German.	Excess (German).
1893 . .	£18,359,000	£30,127,000	£11,768,000
1898 . .	20,511,000	31,635,000	11,124,000
1903 . .	37,944,000	32,446,000	5,498,000[1]
1906 . .	28,320,000	38,274,000	9,954,000
1911 . .	27,760,300	39,930,100	12,169,800
	£132,894,300	£172,412,100	£39,517,800

expenditure in these five years of 34½ millions sterling a-year, gets what is literally and truly "a nation in arms." Great Britain, for her average of 26½ millions sterling a-year, gets an "expeditionary force" of 254,000 with a wavering fringe of Territorials. The peace strength of the German Army is 622,000 men, and their cost per head per annum is consequently £55. On a war footing there would be 5,000,000 men available for service. Not one-half of that number could be put in the field at once, but suppose that only a million were called out. The peace expenditure of the army could be trebled without raising the cost per man much above £100 a-year. Even the maximum expenditure of 1911 might be trebled and the average per man would still be only £120 a-year.

Per contra, the British Army on a peace footing has cost on the average of the above five years

[1] British excess (South African War).

£104 per man per annum. On a war footing of 388,000 men, with the peace expenditure trebled, as in the German case, the cost per man per annum would be fully £200. The Englishman's burden of war would be double as heavy as the German's to begin with. Heaven knows what it might rise to when the War Office got into one of its first-class spending scares! It may not be out of place to repeat here what I have frequently said elsewhere. The mere power of scientific spending which the Germans possess, and which we conspicuously lack, would make the difference of at least one army corps between the two fighting forces.

So much for the relative financial burdens of the two armies. Next comes the still more vital comparison between the financial positions of the two navies—

BRITISH AND GERMAN NAVAL EXPENDITURE, 1893-1911.

	British.	German.	Excess of British.
1893 . .	£14,215,000	£4,062,000	£10,153,000
1898 . .	26,070,000	6,299,000	19,771,000
1903 . .	36,702,000	10,478,000	26,224,000
1906 . .	32,061,000	13,335,000	18,726,000
1911 . .	40,603,700	22,431,000	18,172,700
	£149,651,700	£56,605,000	£93,046,700

Note that in the first year of the Campbell-Bannerman Government, when our Navy Estimates were cut down 4¾ millions sterling, Germany increased hers by nearly three millions. Since 1906, when our false move was made in the direction of naval retrenchment, we have had to add 8½ millions to our expenditure, but in the same period Germany has added over nine millions to hers. The 4¾ millions which was retrenched in 1906 has not only had to be put on again, but another four millions has had to be put on top of it.

The above landmarks in the Dreadnought race between the two countries show on the British side increases in expenditure of 12 millions sterling between 1893 and 1898, and of 10¾ millions between 1898 and 1903. Between 1903 and 1906 a spasm of economy produced a penny-wise reduction of 4¾ millions, but between 1906 and 1911—that is to say, the lifetime of the present Government—it was swallowed up again in an increase of 8½ millions sterling a-year. On the German side we find no such wavering and fluctuation. Every successive stage shows another advance. Between 1893 and 1898 it was a modest 2¼ millions. Between 1898 and 1903 that swelled to over 4 millions. In the next three years it was under 3 millions, or a million a-year. Then came the Dreadnought boom, and within five years—1906-11—German naval expenditure shot up fully 9 millions sterling per annum.

The total increases during the whole eighteen year period were, for the British Navy £26,488,000, and for the German Navy £18,369,000,—together nearly 45 millions sterling a-year for two European navies. These are indeed ghastly figures, but the political and international conditions which have produced them are also ghastly. The consequences of sweeping them away and trusting entirely to the "financial interdependence of nations" might be still more ghastly.

On July 15, 1910, Mr Lloyd George told the House of Commons that

> the countries of the world are spending annually 450 millions upon this machinery of destruction. In twenty years there has been an increase of 200 millions per annum in this expenditure. All nations seem to be infected with an epidemic of prodigality in this respect, which seems to be sweeping over the world, and sweeping it to destruction. We take the lead in that expenditure. After all, we have got the greatest Empire to defend, and we have got that excuse. But if the nations go on increasingly spending their money upon matters which give neither assistance nor support to their people on the road that leads to the highest civilisation, they will inevitably suffer.

That shocking declaration might have been made still more effective if Mr Lloyd George had proceeded to explain that two nations—Great Britain and Germany—are responsible for nearly 40 per cent of 450 millions sterling a-year devoted to the machinery of destruction. The British share (including public debt charges) is 93 millions sterling a-year, or 20 per cent of the whole; while

the German share is 76¼ millions, or 17½ per cent of the whole. The two nations between them have to bear 37½ per cent of the total burden of the world's armaments—a fact of some interest for the students of *weltpolitik*.

Nevertheless, as if to demonstrate the cruel ironies of modern statecraft, the same Mr Lloyd George during the Moroccan crisis of 1911 made a Jingo speech in the City which may have the effect of adding a good many more millions a-year to the naval hecatomb. Nearly a quarter of a century earlier, another British Minister made a similar speech, which might also have proved a very dangerous kind of bluff. During the crisis of the Russo-Turkish war Lord Beaconsfield declared "that England's policy was peace, but her resources if she entered into a righteous war were inexhaustible." They would need to be if the present rate of expenditure is to be kept up much longer.

In comparing the public debt charges of the two countries, it should be premised that they are not strictly parallel. The British totals are abnormally large for two reasons: first, because the British debt is centuries older than that of the German Empire; secondly, the annual charge on it includes substantial but variable payments to sinking funds. The comparison is introduced here chiefly to illustrate the progress of the two public debts. The debt charges are treated roughly as essential parts of the burden of armaments.

PUBLIC DEBT CHARGES, BRITISH AND GERMAN, 1893-1911.

	British.	German.	Excess (British).
	£	£	£
1893 . .	25,704,000	3,259,000	22,445,000
1898 . .	25,500,000	3,614,000	21,886,000
1903 . .	27,540,000	5,031,000	22,509,000
1906 . .	29,070,000	6,377,000	22,693,000
1911 . .	24,500,000	13,981,500	10,518,500
	132,314,000	32,262,500	100,051,500

The next step in the British-German parallel will be to bring together the three sets of military charges—Army, Navy, and Public Debt. The first of the following three tables consolidates the British charges, and the second the German charges, while the third shows them side by side—

BRITISH ARMY, NAVY, AND DEBT CHARGES, 1893-1911.

	Army.	Navy.	Public Debt.	Total.
	£	£	£	£
1893 .	18,359,000	14,525,000	25,704,000	58,588,000
1898 .	20,511,000	26,070,000	25,500,000	72,081,000
1903 .	37,944,000	36,702,000	27,540,000	102,186,000
1906 .	28,320,000	32,061,000	29,070,000	89,451,000
1911 .	27,760,300	40,603,700	24,500,000	92,864,000
	132,894,300	149,961,700	132,314,000	415,170,000

GERMAN ARMY, NAVY, AND DEBT CHARGES, 1893-1911.

	Army.	Navy.	Public Debt.	Total.
	£	£	£	£
1893 .	30,127,000	4,062,000	3,259,000	37,448,000
1898 .	31,635,000	6,299,000	3,614,000	41,548,000
1903 .	32,446,000	10,478,000	5,031,000	47,955,000
1906 .	38,274,000	13,335,000	6,377,000	57,986,000
1911 .	39,930,100	22,431,000	13,981,500	76,342,600
	172,412,100	56,605,000	32,262,500	261,279,600

BRITISH AND GERMAN ARMY, NAVY, AND DEBT CHARGES, 1893-1911.

	British.	German.	Excess (British).
	£	£	£
1893 . .	58,588,000	37,448,000	21,140,000
1898 . .	72,081,000	41,548,000	30,533,000
1903 . .	102,186,000	47,955,000	54,231,000
1906 . .	89,451,000	57,986,000	31,465,000
1911 . .	92,864,000	76,342,600	16,519,400
	415,170,000	261,279,600	153,888,400

At least three-fourths of the public debt having been contracted for military objects, it may be regarded as a military charge. On adding it to the army and navy bills we get in 1911 a grand total for Germany of 76¼ millions sterling, and for Great Britain of close on 93 millions per annum. Which of the two countries is getting the better value for these huge outlays? More-

over, which runs the greater risk of throwing away its expenditure through mismanagement and inefficiency? Finally, which country is increasing its expenditure most rapidly? Ours rose between 1893 and 1906—the limitation of armaments year—31 millions sterling and Germany's 20½ millions sterling. Since then (1906-11) there has been a further advance in our military and public debt charges by 3½ millions, but if we include the 4½ millions filched from the Sinking Fund the real increase will be 8 millions a-year. *The corresponding increase in Germany was more than twice as large—namely, 18¼ millions a-year.*

In the eighteen years 1893 to 1911, the aggregate outlay on the German Navy, according to the official accounts, was 208½ millions sterling. It began with little more than four millions sterling in 1893, and rose to nearly 22½ millions in 1911. In the same eighteen years our naval expenditure amounted to 559½ millions sterling—nearly three times the German aggregate. Assuming that the two navies depreciated at the same rate —say, 20 per cent per annum—our loss from that cause in the eighteen years would be 112 millions sterling and the German loss only 47 millions sterling. Not only is our navy much more costly to maintain, but its wastage is far greater.

If the Fisher policy of scrapping wholesale our smaller ships be sound, the Germans may congratulate themselves on the enormous saving it means for them. If they had had to duplicate

the scores of ships we have lately scrapped it would have cost them almost as many millions as we have lost through it. Such losses are by no means done with. They will continue to be a heavy handicap on us in competing with Germany. She has so much in hand which we have thrown away. In comparing our naval expenditure with hers, it will always have to be remembered that a large part of the excess on our side is no longer of much value. The amount to be written off from our total for scrapped and obsolete ships will be enormous.

It may be some consolation for us to observe that German naval expenditure is now growing quite as rapidly as our own, if not more so. If this should continue for a few years more the German wastage will be as great as our own. As yet the two burdens are very unequal, but they are approximating steadily.

How profound is the popular ignorance which prevails as to our present and future relations with Germany is being proved daily in a multitude of ways. Parliamentary debates betray the most superficial knowledge as well as the most absurd ideas of German policy. Between the scare-monger who sees airships passing in the night and the Little Englander who does not see why the Germans should not have London if they want it there are many varieties of British cranks. But, surely, there must be a fair proportion of sober-minded men and women who can look

plain facts in the face without using either red or green or blue spectacles.

To such people, be they few or many, I now appeal for candid, sensible consideration of the foregoing facts and figures. It is no longer any secret that we are drifting into a trial of strength with the most powerful of European States. The contest has, in fact, already begun. It has not yet reached the war stage, and, pray God, it never may, but the preliminary fencing is in full swing. We experience it every day in our trade and finance. The German Reichstag resounds with wild outbursts of Anglophobia, and seems to have abandoned itself to a paroxysm of Pan-Germanic fury in which anything may happen. If the Imperial Government should, willingly or unwillingly, give way to this hysterical tumult and submit to the Reichstag an enlarged Dreadnought programme, there will be no choice for us but once more to trump it. And so the battle of the war budgets may go on indefinitely.

Already both countries groan under military budgets, not only the largest in the world, but the largest the world has ever known. Ours, taken altogether, is the heavier of the two, though we get much less for it. Our Army and Navy combined costs fully six millions sterling more than the German Army and Navy. That is a serious handicap to start with in a race of armament building. Formerly it was even heavier, but for some time past Germany's expenditure has been

overhauling ours. Her Army Budget is, in fact, twelve millions a-year heavier than ours, but it provides for more than double the number of fighting men—over six hundred thousand, against less than three hundred thousand.

On the other hand, the German Navy in its present form is maintained at little more than half the cost of ours. The respective totals are forty millions and twenty-two millions. The latter is at least all the naval expenditure acknowledged in the Treasury accounts of the German Empire. How much more is covered up in loans expenditure or under other heads it is impossible to ascertain exactly. In any case our naval budget is bound to be much the heavier of the two, as our navy as a whole is still immensely larger. It is only in the newest class of battleships that the Germans are as yet competing seriously with us. In armoured cruisers and smaller ships they do not attempt to approach us. This, of course, is an advantage for us, and will be as long as such preponderance lasts. But it also has its drawbacks, and the principal of these is that our much larger number of ships and men are proportionately dearer to maintain.

This armament competition will test something more than the financial endurance of the competitors. It will strain their entire systems of administration. The oldest and the youngest fiscal policies will be put on their trial together. Which of them is likely to emerge with the

greatest credit, or, we might more correctly say, with the least damage to itself? In either case a bad breakdown is quite conceivable: it is, in fact, almost inevitable. Each system has its weak as well as its strong points. The British Chancellor of the Exchequer has difficulties to grapple with which have no counterparts at Berlin. Many of these are of his own creation, but that does not render them easier to overcome. On the other hand, the Finance Minister of Germany may envy his British *confrère* the free hand he enjoys, and the practical irresponsibility which a democratic Legislature has conceded to him. The Reichstag still keeps up the old forms of financial supervision, but in the House of Commons they have been closured, guillotined, and tabooed. If a large scheme of war finance were suddenly called for in this country, the present House of Commons would be perfectly helpless to deal with it. It is so long since it had a proper budget before it, or a sound financial proposal to discuss, that financial criticism is rapidly becoming a lost art. This, too, though it is the art of all others which we have most need to be studying in these stormy times.

All these complex details resolve themselves into one supreme question: Wherein lies the financial strength of a nation for purposes of national defence? Assuming that the necessary ships, guns, and men are all available, how are they to be paid for? How are they to be main-

tained in a continuously efficient state? Last and most crucial question of all, how are war funds to be provided should the ships, the men, and the guns ever have to be put to the supreme test of their quality?

The most difficult and the most terrible of all financial problems is how to finance a great war. We have had not a few opportunities of realising that fact. Our practical experience of it is unrivalled both as to quantity and quality. British wars have invariably combined the maximum of cost with the minimum of result. German wars have, as a rule, been conducted on the converse principle of maximum result combined with minimum cost. This is a vital difference to start with. If the Germans can in a campaign do more with ten marks than we can do with a sovereign, that doubles their financial power at a stroke.

Thus the first and highest test of military efficiency on the financial side is the very prosaic virtue of spending money wisely and well. All statistical comparisons in the case have to be qualified by that proviso. They may be reduced to three or four tests, beginning with the public revenues of the two countries. These being of a composite character, have to be analysed into their chief elements—income from State property, from taxes, and from miscellaneous sources. Taxes, again, are divisible into actual and potential. The volume of actual taxation is,

from a military point of view, of less importance than the margin held in reserve for emergencies.

There are still other factors even more vital than public revenue, present or prospective. No European war has ever been carried on long without borrowing. Credit is therefore of greater consequence than cash or capital. Moreover, all the fighting in a great war is not done by either armies or battleships. A commercial war is generally carried on side by side with the military operations. A country at war with Great Britain might do us infinitely more harm by destroying our commerce on the high seas, or cutting off our food-supplies from abroad, than by defeating a squadron of "Dreadnoughts," or even landing on some undefended point of our coast. Conversely, that might be our best method of weakening any other Power we are likely to get into collision with. Nowadays nations are easier to starve than to smash up.

SUMMARY OF CHAPTER IX.

National resources a prime factor in military finance. Wealth divisible into primary (the necessities of life), secondary (services and commodities incidental to civilised life), and conventional (speculative and sumptuary values). In war, primary wealth appreciates in value, while the other forms depreciate. Bourse scares unimportant wherever the food-supply of a country is adequate. The bad harvests of Germany and France in 1911 were effective checks on war. The fallacy of attempting to reduce all kinds of wealth to terms of money. Sir Robert Giffen's estimates of the wealth of the United Kingdom In 1885 and 1899. Income-tax assessments utterly misleading standards of effective wealth. The latest valuations of the wealth calculators. The primary wealth of Russia and other food-growing countries. The wonderful financial effects of a bumper crop. Germany's wealth a well-balanced combination of the primary, industrial, and speculative forms. Interesting official statistics of German economic progress. British, Russian, and German types of wealth compared.

MODERN WARS AND WAR TAXES

PART III. ELEMENTS OF MILITARY STRENGTH

CHAPTER IX. SOLID UTILISABLE WEALTH

Among the neglected elements in the science of military finance, estimates of what various nations may have to stake on the issue of war are the most notable. The economic wealth of a country is its primary concern, both in war and peace. Armaments and financial systems derive most of their significance from that fundamental fact. Their special function is to defend and develop the economic resources of their country. These resources have therefore to be studied as an essential factor in the military policy of a State. They indicate on the one hand what the State has got to defend, and on the other hand the extent of its means for military action.

Any criticism of military finance which begins at the beginning instead of in the middle or near the end, as most of them do, will first of all clearly

define what it means by national wealth. This is conspicuously absent from the homilies of the new peace school, who think they have finally demolished the idea that war can ever be profitable to either of the belligerents. The meaning of "profitable" turns entirely on the conception of national wealth which may accompany it. There are many to choose from, beginning with Adam Smith's, and they are frequently being added to by living economists. Here a threefold division may be most serviceable.

The first class will be primary wealth, embracing the bare necessaries of life. The second will be secondary wealth, including services and commodities essential to civilised if not to primitive life. The third will be conventional wealth, and it may be subdivided into two classes. There is conventional wealth with earning power—dividend-paying shares, for example, and a great deal without earning power, as, for instance, diamonds, pictures, and other luxuries. Though all these come under the elastic heading "wealth," it is obvious that they differ widely from each other both in character and in practical value to the owners.

A state of war emphasises these differences to a remarkable extent. It greatly enhances the value of the primary wealth, which consists of the necessaries of life. It may temporarily reduce or increase the value of the intermediate class, consisting of railways, manufacturing and trading

establishments, &c. Certain industries may benefit by warlike operations being carried on in their neighbourhood, while others may be injured. Probably on balance there would be a large amount of injury done to this class of wealth, but it would be only temporary, and when peace returned there might be such a revival of business as would soon wipe out the war losses. That has been a frequent if not an invariable sequel to the latest modern wars.

The class of wealth which has most to fear from war is that which depends on credit and speculation. The money market and the stock market, being peculiarly sensitive to every favourable or unfavourable event of the day, are the first and worst sufferers from any general upset of business. On the other hand, as if to compensate them for their excessive susceptibility, they have an exceptional amount of recuperative power. If they are the first to go down in a war scare they are also the first to rally after it. So long as the more substantial forms of wealth in a country are not seriously injured, money and stocks can come to no permanent harm.

The wealth which matters in war is first of all the food of the people. If that be assured, Bourse scares are of small consequence. Conversely, if it be imperilled, no other conceivable advantage a nation may have over its adversary can be of much use to it in the long-run. The heading of this chapter, "Solid Utilisable Wealth," means

therefore, in the first place, ample food-supplies to support forty, fifty, or sixty millions of people, as the case may be, through a prolonged period of warlike operations. In the second place, it means ample supplies of raw materials for carrying on as far as possible the normal industrial work of the country. These are the essential conditions of fitness for war, offensive or defensive. The rest is all subsidiary and speculative.

But in pointing out the limitations of speculative wealth, such as money, stocks, and creations of credit, we must guard against appearing to minimise their importance. Credit, though it be neither food nor raw materials, is a vital necessity to national trade and finance. Without it they might not be reduced to an absolute standstill —that were in fact impossible—but they would be dangerously hampered and obstructed. Any statesman confronted with a fateful choice between peace and war would think twice about his food-supplies for once about the money and stock markets.

When the inner history of the recent Morocco negotiations is disclosed, it may be found that the bad harvests of the past summer in Germany had a much more moderating influence on them than all the Bourse panics in Berlin and the outcry of frightened bankers and speculators. These people were in fact only the froth on the surface. All their losses put together would not amount to a fifth part of the value of the ruined beet crop.

Any one who travelled last August among the burnt-up fields and gardens of the Rhine Valley could have seen that it would have been the worst possible year for Germany to undertake a war of any kind, let alone a deadly struggle with her old enemy France. The French crops fared better than the German ones, but even they might have been a poor provision to start a first-class war with.

It is not unlikely that in future the food difficulty will be a more effective check on war than any other. It will become more and more effective as food grows dearer and as over-sea supplies fall off. The same tendency is observable among raw materials. In their case the over-sea supplies may have passed their maximum and be destined hereafter to decline. As this movement advances, the European nations which draw so largely on over-sea sources will learn to appreciate the substantial forms of wealth as distinguished from the speculative and conventional forms. Food and commodity values will rise, while money values will decline.

A great economic error has been committed in attempting to reduce all national wealth to terms of money. This fallacy was started a quarter of a century ago by over-zealous statisticians, and has been carried to extravagant lengths in our own time. Its leading authority was the late Sir Robert Giffen, who made two separate estimates of the national capital and income—the first in 1885, and the second fourteen years later in 1899.

Both of these were founded on the assessments for income-tax,—a most unreliable basis, admitting of all sorts of duplications and mystifications. In the best case, and with the fullest possible data, nothing better could have been obtained than rough estimates; but Sir Robert shook the confidence of his readers still further by changing his methods on the second occasion.

In 1885 he found the aggregate assessments to the Property and Income-tax to be 631½ millions sterling. Deducting from that 203 millions for personal, or, as they are now called, "earned" incomes, he obtained 429 millions as the total of the "unearned" incomes—in other words, the returns on capital. So far he was on fairly firm ground, but there were various gaps to fill up in respect of incomes under the taxable minimum, exemptions, abatements, &c. These had to be supplied by guesswork, and Sir Robert's guesses were perhaps the best then available. At this interval of a quarter of a century it is curious to read the details of a calculation now completely out of date.

SIR ROBERT GIFFEN'S ESTIMATE OF BRITISH INCOMES, 1885.

Total assessed to Income-tax . . .	£428,843,000
Trades and professions omitted . . .	7,219,000
Allow for exemption limit raised in 1876 . .	960,000
Incomes from capital below the Income-tax line	67,000,000
Foreign investments not in Schedules C and D	50,000,000
	£554,022,000

The second estimate made for the year 1899 started from an aggregate assessment to income-tax of 759 millions sterling, from which 240 millions were deducted for personal or "earned" incomes. To the remaining 519 millions 150 millions were added for omissions, exemptions, rebates, and returns from foreign investments. The final result was 669 millions of income derived from capital. Salaries, wages, pensions, &c., would make up the national income to about 1500 millions a-year. By capitalising this at an average purchase of ten years, Sir Robert Giffen arrived at the substantial sum of 15,000 millions sterling as the capital wealth of the United Kingdom.

These interesting but misleading calculations of national wealth are continued by several of Sir Robert Giffen's successors, though on somewhat different lines. They are of little practical value in public finance, and still less in military finance. But statisticians of all nations indulge in them, and they are specially favoured by politicians bent in proving our free-trade system to be an unrivalled fountain of prosperity. The multiplication of official incomes of over £160 a-year can be carried on indefinitely by a popular Government, and when they are assessed to income-tax they become proofs of growing national wealth!

A brilliant example of how public expenditure may be thus paraded as private income is fur-

nished by the staff of valuers employed by Mr Lloyd George for the administration of his still-born land taxes. These new officials appear to be handsomely paid, their salaries amounting to nearly a quarter of a million. Most of that will be assessed for income-tax, and will consequently figure in the annual reports of the Inland Revenue Commissioners as a proof of our increasing wealth and economic power. But in spite of this officially manufactured wealth, the income-tax assessments have of late been making little progress. Their gross amount in 1909-10 was only 1009 millions sterling, or two millions less than the total of the preceding year.

The net assessments—in other words, the reduced amounts on which income-tax was actually paid—were in 1909-10, 686 millions sterling, against 693 millions in 1908-9. In the opening year of the century (1901-2) they were 594 millions—only 92 millions less than the total of 1909-10. The growth of the whole period of eight years averaged only £11,000,000 a-year, and even that slow growth is no longer maintained. In 1909-10 there were decreases both in the gross and the net assessments. Thus, judged by the test which Ministers invariably choose for themselves and also recommend to their followers, our economic resources cannot be considered in an exuberantly healthy condition. To foreign statesmen and diplomatists they may not seem quite as strong a factor

as they used to be in the determination of peace or war.

Sir Robert Giffen's successors cannot be accused of not doing their best to keep up the manufacture of statistical wealth. It is an easy and a pleasant process to multiply riches on paper, especially when you can distribute them as you please. The latest calculators have worked up our national income to 2000 millions sterling—a jump of 500 millions a-year above Sir Robert's even highest total—that of 1899. The problem of how to divide it up continues to elicit a great variety of solutions. Some calculators allot to the "workers," as distinguished from the capitalists and the "idle rich," anything from a fourth to two-thirds of the whole.

One of them very rightly prefaces his distribution by deducting from the 2000 millions the interest on British capital invested abroad. This he estimates—rather liberally, I fear—at 200 millions, leaving only 1800 millions a-year for domestic use. He next grades the workers into four classes: first, manual wage-earners or labourers; second, wage-earners above the manual labour class; third, salaried workers with incomes between £160 and £400; fourth, professional workers with incomes between £400 and £800. To each class, as thus distinguished, he assigns the following aggregate income, which for their sake we hope is not over-estimated:—

	In million £'s.
Manual labourers	880
Skilled workers	330
Salaried workers	250
Professional workers	62
	1522

In addition, the wage-earners are assumed to be capitalists to the amount of 600 millions sterling, from which they derive 25 millions of interest and profit. The capital of the other earners, corresponding with what is generally called the "lower middle class," is estimated at 750 millions, yielding a return of 30 millions a-year. The 1522 millions a-year plus 55 millions a-year of interest on capital make a grand total of 1577 millions a-year as the share of the workers of all grades and classes. On this basis there would be only 423 millions a-year, or little more than a fifth of the whole for the capitalists and the "idle rich." This is certainly much more moderate, and therefore more likely to be correct, than the enormous slice which the socialist statistician, Mr Chiozza Money, accuses the rich of filching from the poor.

But the proper answer to all such fanciful calculations is that they are mere figures. Even if they were as reliable as they are disputable, they could prove nothing as to the national wealth of the country. The returns on which they are based are simply the sum of a great

variety of casual incomes, most of which are consumed as fast as they are earned, in many cases even faster. So long as the necessary food, housing, and clothing for the whole community are available, the money incomes can be made as large or as small as we like. Doubling or trebling them might not increase by one iota the primary wealth of the nation, which, as already explained, means the necessaries of life. Cutting them in two might not diminish it to a greater extent. The nominal incomes, and the grand structure of income-tax assessments reared upon them, are little else than kaleidoscopic combinations.

For an illustration of solid as distinguished from statistical wealth we need only turn to one of the great producing countries of the world—Canada, Russia, or Argentina. We may take Russia for choice, as that country is now undergoing a somewhat remarkable development which is fully described in the British consular reports. The chief cause of this was not, as in certain other countries, a great multiplication of official salaries and a consequent increase in income-tax assessments. It was a splendid harvest —that of 1909. As soon as the record wheat crop of 1909 was assured, the wheels of industry and commerce began to move as they had not done for many a day.

The annual exports rose from £105,300,000 to £152,900,000. The foreign exchanges, which are

generally against Russia, turned sharply in its favour, and gold rushed in from abroad. During the year the Imperial Bank gained over 16 millions sterling, its stock of gold having advanced from £133,600,000 to £149,700,000. Concurrently there was a marked inflow of deposits into the private commercial banks, especially in the grain-growing districts. This enabled them to increase their discounts and advances, and to grant more favourable rates in both cases. Between July 1908 and July 1909 the bank deposits advanced from £105,700,000 to £124,900,000—nearly 20 millions sterling, or at the rate of 18 per cent for the year. Finally the public revenue came in for a share of the general benefit, and the fiscal receipts for the year exceeded the estimates by seven millions sterling.

The consular report which describes this crop boom in Russia thus sums up its commercial and financial effects:—

> The most satisfactory feature of the year, from a financial point of view, is the strengthening of the national fund of capital (as the consequence mainly of the good harvest) and the benefits accruing to the different branches of industry from a more plentiful supply of capital and easier conditions of credit. . . . The increase in the gold lying at the State Bank, besides representing increased deposits by private banks and individuals, and being thus an indication of a general abundance of money, enabled the State Bank to enlarge the facilities which it affords to industry by its lending operations. . . . The above returns illustrate the

marked effect on the whole economic situation in Russia which can be brought about by a single good harvest.

If the reader will compare, or rather contrast, the solid wealth created in Russia by a bumper crop of wheat with the statistical wealth represented by British income-tax assessments, he may easily judge for himself which of the two will be more "utilisable" in war. While the income-tax assessments would shrivel up wofully, the golden grain would feed armies and people at the same time.

The national wealth of Germany may be classed between the British and the Russian. It partakes of the peculiar qualities of both. The German Empire in a normal year produces a large proportion of the food it consumes. At the same time it has a large amount of accumulated capital earning interest and profit. Consequently it also makes a brave show of income-tax assessments. Though not yet as big as our own, it is rapidly overhauling us. The Germans appear to be almost as fond as ourselves of wealth statistics. Schmoller's 'Jahrbuch' is a vast storehouse of them. In the issue for 1907 a summary is given of all the public and private property in the Empire at that time. Its author said—

I estimate the private property of Germany at 240 milliards (£12,000,000,000) and the total national property at 281 milliards (£14,050,000,000). The year's increase averaged 4 per cent, or say 9 milliards

and 11½ milliards respectively. But 1907 was an unfavourable economic year. In the two succeeding years, even taking the increase at only 4 per cent, the national wealth will have amounted to 300 milliards (£15,000,000,000), and it is still growing at the rate of 12 milliards (£600,000,000) per annum.

In another estimate which Professor Schmoller submitted to the Bourse Inquiry Commission in 1893, he put the annual increase of private wealth in Germany at 2000 to 2500 million marks annually (£100,000,000 to £125,000,000). R. C. May, also a German economist of repute, calculated that in the twelve years from 1895 to 1907 the incomes of the German people rose from 25½ milliard marks (£1,275,000,000) to 42 milliards (£2,100,000,000). This, if correct, would be going ahead of our own wealth calculators, who have not yet ventured higher than 2000 millions sterling a-year. But we have already expressed our poor opinion of wealth statistics generally.

Germany has a much more solid kind of wealth in the great variety of property owned by the Imperial and Federal Governments and also by the municipalities. It is thus described by R. C. May:[1]—

'The Quarterly Statistics of the German Empire' (vol. ii.) has for several years past given a summary of the finances of the Empire and also of the Federal

[1] 'Das Deutsche Volkseinkommen und der Zuwachs des Deutschen Volksvermogens' in 1907.

States, from which it appears that in 1907 the assessed capital of the State railways increased during the year from 13,956 to 14,802 million marks—a gain of 846 millions. In the same period the public domains of the Federal States increased from 723,326 hectares to 758,454 hectares—35,128 more. The State forests were extended by 20,682 hectares—that is, from 4,964,981 to 4,985,663 hectares. Valuing the domains at 1600 marks per hectare and the forests at 500 marks, the former will have improved by 56,200,000 marks and the latter by 10,300,000 marks, or together 66 millions. Besides that appreciation in the State lands, those of the municipalities also show large gains. Forty-seven towns possessed, in 1905, landed estate aggregating 188,182 hectares. Deducting 33,569 hectares for paths, roads, railways, open spaces, public gardens, and reservoirs, 154,613 hectares remain. Outside of their own areas these forty-seven towns also possessed 78,011 hectares of common land, raising the municipal estates to 232,624 hectares in all. The net increase for the year was 2688 hectares. The policy of the municipal councils in developing these lands soon renders them very valuable, and they appreciate more rapidly than ordinary lands. At the sitting of the Finance Commission of the Reichstag on 23rd June 1909 State Secretary Sydow estimated the municipal landed property in Prussia at 21 milliard marks. The new public buildings of the towns with over 10,000 inhabitants were valued, in 1907, at 195 million marks. These towns contained, however, only 40 per cent of the total population of the Empire, and the communes representing the other 60 per cent acquired new buildings worth at least 55 millions. We thus arrive at 250 million marks as the aggregate value of new municipal buildings. The above four classes of State and municipal property increased in value, in 1907, by 1492 million marks, namely—

	Million marks.
State railways	846
Domains and forests	66
Communal lands	330
Communal buildings	250
	1492

Another recent German writer, Herr Heyman, has furnished even more striking examples of the economic progress which Germany has realised under the Empire.[1] The population has increased at the rate of nine hundred thousand per annum, and the more people there are the better they are housed and fed. Thirty years ago the average consumption of wheat was only 64 kilogrammes, or 140 pounds per head per annum. It is now 95 kilogrammes, or 209 pounds per head. What is still more satisfactory is that the additional wheat has not, as in our case, had to be all imported. A considerable portion of it was grown at home, and has helped to produce a flourishing agriculture, in which seventeen million persons are directly or indirectly engaged. The tremendous expansion of the towns seems to have had little or no injurious effect on the rural districts—an experience in which Germany is exceptional, if not unique. As a crowning instance of the industrial progress of Germany under the Empire, it may be added that in 1871 it contained only eight cities with over a hundred thousand in-

[1] 'Die Deutschen Anleihen' von Hugo Heyman.

habitants, and now it has forty-five, or one more than Great Britain and Ireland can show between them.

Thus the financial strength of the German Empire is a very two-sided question. If we look only to the rapid and portentous growth of its public debt, we may see possible and not very remote limits to its building of Dreadnoughts with borrowed money. But when we turn to the other side of the shield and observe the imposing display which the Empire presents of flourishing industries, profitable trade, and ever-increasing energy, we may at last realise that we have a long and arduous struggle before us.

If in a single year State and municipal property increased by nearly 1500 million marks, or 75 millions sterling, what must have been the amount of appreciation in all the private properties owned by sixty millions of people? The mere thought of it would make Mr Lloyd George's mouth water. What a harvest of unearned increment it suggests for the tax-gatherers. The few pounds he has so far got out of his unearned increment tax would look ridiculous beside it. It may, however, be a slight consolation to him to learn that 1907 was a boom year in Germany, and that next year it was followed by its natural sequel—a heavy *krach*.

We have thus reviewed three very different

kinds of natural wealth: British wealth, based on income-tax assessments, all more or less ephemeral; Russian wealth, which is drawn mainly from the soil, and can be either consumed at home or sold abroad; and German wealth, which is made up of both the others. In military value—that is, value to a country at war and cut off from its usual channels of trade—there is no comparison between them. Income-tax assessments would make a very poor war chest without an ample supply of food and raw materials behind them. *Per contra*, Russia's grain, flax, oil, and other staple products would render her independent of foreign markets. She has the "solid utilisable wealth" on which modern armies can march as well as fight.

Germany, though not so well provisioned for war as Russia would be, is considerably better off than we are. No country in the world has such a small command of war supplies within itself as the United Kingdom. And the poverty of forethought on the subject is even more appalling than its poverty of materials.

SUMMARY OF CHAPTER X.

The universal importance of fiscal finance. It should be taught in all universities and schools. Citizens should have debtor and creditor accounts with the Government. The fundamental requisites of financial strength in a State—ample public revenue, adequate food-supplies, equitable taxation, capable administration, first-class national credit. The difference between regular current finance and emergency finance. The correlation of taxes and public services. Each branch of revenue should have a kindred branch of expenditure. The Income-tax now on a war footing. Mr Gladstone's model Budget of 1853. His panegyric on the Income-tax as an emergency reserve. How Pitt financed the Great War. The bungled financing of the Crimean War. The peculiar origin of Exchequer bonds. To-day's new finance a dangerous departure from the Pitt and Gladstone models. Loading up the State with fresh burdens and cutting down the margin of emergency reserves.

MODERN WARS AND WAR TAXES

PART III. THE ELEMENTS OF MILITARY STRENGTH

CHAPTER X. A DEFINITE MARGIN OF EMERGENCY TAXES

THERE is one branch of finance that should be universally studied and the elements of which should be understood by every citizen. It should be taught not only in universities and secondary schools but in the higher standards of elementary schools. This is fiscal finance, the basis of all sound politics, and the corner-stone of national prosperity. Fiscal finance is the science by which business relations between the State and the people are maintained and regulated. Its reciprocal objects are on the one hand to ensure the business efficiency of the State, and on the other to divide the cost equitably among those who are liable for it.

A modern Government takes a great deal from the people and professes to do a great deal for

them in return. An efficient fiscal science would value those services on some fixed principle, and would strike a balance between them and the payments made for them. But we are still far from that scientific ideal. The people themselves have a very dim notion either of the services they receive from the State or of their cost in rates and taxes. Nothing in their lives concerns them more; nothing touches them at so many different points, or is such a frequent cause of irritation, and yet there is no subject on which they are so badly informed or so easily misled. It is entirely omitted from their school education, and very few of them ever repair the omission in after years.

The business relations which should obtain between a civilised Government and its subjects form the youngest and crudest of the social sciences. It is neither studied nor taught as it might be. In fact, it is not sufficiently developed and organised to be teachable. We have not yet reached even the rudimentary idea of a current account always going on between taxpayers and tax-spenders. In such an account the State would be duly debited with every penny it received, and credited with the value of every service it rendered. On the side of the people there would be a corresponding debit for every benefit given, and a credit for every contribution, direct or indirect, to the public good. Payments and receipts should involve reciprocal rights and duties.

Financial strength in a State presupposes ample revenue for public requirements; adequate means of livelihood for the people; equitable taxation under which all classes of taxpayers shall contribute fairly to public expenses; honest and capable administration to make the most of the varied resources of the State; last but not least, national credit of the highest order and commanding the best possible terms in the Money Market.

For ordinary occasions those advantages may suffice, but beyond them is a broad zone of eventualities which cannot be foreseen and discounted in advance. Vague as it is, a sound scheme of national finance will not ignore it because of its vagueness. There is as much, and indeed more, need to anticipate its possible demands as to provide for daily necessities. Emergency finance, though hitherto neglected or pushed aside, is no less important, and therefore deserving of study as routine finance.

A modern budget which would cover the whole area of national service, internal and external, must needs have many separate branches. In each of these an attempt ought to be made, though in point of fact it never has been, to correlate taxation to expenditure. Each of the many heads of expenditure should have assigned to it the taxes with which it has the closest affinity. A service, say public education, in which the whole community are equally interested, should be paid for from some source of

revenue to which all contribute. Customs duties are the nearest approach to such a universal source, and in a smaller degree are Excise duties.

On the other hand, the charges on the National Debt have more claim on owners of property than on landless citizens. It would be quite fair to give them a special call on the Death duties and other property taxes. National defence occupies a middle ground between the two, and should draw from both sides—that is, both from the property and the consumption (sometimes called proletarian) taxes. The Civil Service charges should also be spread in certain proportions over the property and the proletarian taxes.

These adjustments would doubtless be difficult to make, but the clear and intelligible order they would introduce were worth the cost. When the various adjustments have been made—if any Finance Minister ever has courage enough for the attempt—it will be discovered that something else is still wanting. There will be a conspicuous gap in the scheme, owing to the lack of taxes specially reserved for war or other grave contingencies. Before Limehouse finance arrived upon the scene it was always understood that the Income-tax should be held in reserve as a war tax. That doctrine, however, is rapidly disappearing in the flood of proletarian prodigality. The Income-tax has been of late so mercilessly screwed up that its peace footing is

now almost if not quite as high as its war footing ever was.

This is contrary to the teaching as well as to the example of all our best Chancellors of the Exchequer. It is still more at variance with the plain common-sense which in daily life teaches people to lay up something for a rainy day. One of the most strenuous advocates of that precept was Mr Gladstone. Many a purple passage in his budget speeches extolled the Income-tax as a national fiscal reserve—an emergency fund to be religiously taken care of and preserved until the day of trial, whenever that might come.

It is strange that notwithstanding our never-failing supply of public financiers, theoretical and practical, so little has been attempted in the way of giving scientific form and structure to the national accounts. The idea above suggested of fitting every group of taxes to a kindred branch of expenditure, and arranging for them to rise and fall together, has hardly ever reached the academic stage. Nevertheless it discloses vast possibilities of financial progress. The adjustment of receipts and expenditures would tend to become automatic. When a certain branch of expenditure increased out of due proportion to the others, the corresponding taxes would have to be raised. When it had a substantial decline, the correlated group of taxes would benefit. The invidious task of the Chancellor of the Exchequer in selecting taxes to be raised or lowered, imposed or re-

pealed, would thereby be greatly lightened. The periodical squabbles between various classes of taxpayers as to who pays most might take a more intelligent direction.

But the chief reform which a model form of budget might furnish is a specific scheme of emergency taxes, to carry out the idea which Mr Gladstone often had in his mind, though unfortunately it never reached realisation. The present practice of budgeting from year to year and altogether ignoring everything more than twelve months ahead is unworthy of the name of national finance. Even the Government of India in its financial administration takes a much larger view of the future than the Imperial Government itself. But all responsible nations, and the Great Powers in particular, are finding it necessary to enlarge the scope of their budgets.

Continental budgets are in some respects more scientific than ours, and to that extent their national finance is more sound. They have adopted better classifications of receipts and expenditure than ours. They adhere more consistently to them, and allow less scope for the caprices of individual Ministers. Even Mr Gladstone, the greatest theorist we have ever had in national finance, though by no means our greatest Finance Minister, failed to give scientific form to the annual budget. He held out some hope of it in his maiden budget of 1853, but the course

of events was too strong for him, and he ended by using taxes as electioneering counters. His budget of 1853 contains one of the boldest and best expositions of national finance to be found in English history. One has only to contrast with it the latest budgets of his successors in order to realise how rapidly we are drifting toward sheer sentiment and claptrap in the adjustment of taxation. Mr Gladstone had the true faith in him when he expounded to the House of Commons the proper functions of the Income-tax.

> Whatever you do [he said in regard to the Income-tax], you must be bold, you must be intelligible, you must be decisive. You must not palter with it. If you do, I have striven to point out, as well as my feeble powers will permit, the almost desecration, I would say, of your high office, certainly the gross breach of duty to your country, of which you will be guilty, in thus putting to hazard the most potent and effective among all the material resources. I believe it to be of vital importance, whether you keep this tax or whether you part with it, that you either should keep it or should leave it in a state in which it will be fit for service in any emergency; and this it will be impossible to do if you break up the basis of your Income-tax.

That characteristically passionate appeal was made to the original income-tax graduators, whose descendants have at last got a Finance Minister to adopt the sophism which Mr Gladstone so vehemently rejected half a century ago. He tore to shreds their fine distinctions between

earned and unearned incomes, but that was not the greatest service he then rendered to sound national finance. He laid down clearly and definitely the duty of the nation to have emergency taxes at its command. His peace sentiments would not allow him to speak of them as war taxes, but the House of Commons knew well enough these were what he had in his mind. In one passage of his budget speech he went so far as to say—

> If you want to appreciate the Income-tax you must go back to the epoch of its birth; you must consider what it has done for you in times of peril and emergency. You must consider what, if you do not destroy it, it may do for you again if it please God that those times should return.

Mr Gladstone was there referring, of course, to Pitt's original income-tax which carried us triumphantly through the most prolonged and desperate of our many wars. If for no other reason than that, it should be memorable as an emergency tax. Every schoolboy in the three kingdoms should be familiar with its history, and its place in our military finance should be too firmly fixed for any chance majority in the House of Commons to disturb it. There was never greater need than now for financial authorities to insist on its paramount importance. Regular taxes are approaching so close to the limit of our tax-paying capacity that the margin for emergencies is growing dangerously narrow.

Along with this has arisen a still greater danger, inasmuch as a large section of the House of Commons scout the principle of emergency finance. They will not look ahead because it is unpleasant, and they have had little or none of the practical business experience which teaches men the value of reserves.

The explanation of this short-sightedness may be that in the long interval between the Crimean War and the outbreak of the Boer War public finance became too easy and pleasant for all European Governments, and for our own more than for any other. The facilities for borrowing in London during these forty years were so great that Chancellors of the Exchequer never had any experience of a real financial emergency. Like the railway companies, they had only to ask and to receive. Such a wide choice of borrowing was at their command that they had never any occasion to compare very closely the different forms in vogue. When they needed money they had only to say whether the loan was to be in consols, or in terminable bonds, or in Exchequers, and the business was as good as completed. They had none of Pitt's historical difficulties, or of his desperate contests with Threadneedle Street and Change Alley.

The most astounding thing about Pitt's Great War was how he ever managed to raise the funds to keep it going. Compared with the resources which Sir Michael Hicks-Beach had at his com-

mand in the Boer War, Pitt had next to nothing. The forms of security he could use were much less varied. Consols and terminable annuities were almost his only financial weapons, and he strained them until they broke in his hands, and he had to compel the Bank of England to suspend specie payments. But violent as were the measures he was forced into, and desperate as were the risks he had to take, he lived to see an honourable peace. His severely tried financial policy has been an object-lesson to all subsequent Finance Ministers in the financing of a life-and-death war.

Pitt's maxim that existing taxpayers should bear as large a share as they could of war expenditure, and that the balance should be met by terminable charges on future revenue, has been professedly endorsed by all his successors, but not one of them has lived up to it as he did. From 1793 to 1798 inclusive, Pitt raised over 120 millions sterling, chiefly in 3, 4, and 5 per cents, and partly by long annuities. The total amount of stock created was £176,852,000, and the aggregate of the annuities was £293,000. The annual charge for interest and a 1 per cent sinking fund amounted to £8,225,000.

Pitt's original intention was to impose special taxes sufficient to cover the interest and redemption of his loans, and these were to remain in force until the complete liquidation of the loans secured on them. This was a definite tangible policy

which the country understood and did its best to carry out. Had it not been clearly understood and appreciated, the nation would never have made the sacrifices for it that they did. The Finance Minister and the taxpayers of those days were in fuller sympathy with each than they have ever been since.

But good as Pitt's maxim was, it had its natural limitations. There was only a certain amount of loanable capital in the country, and every fresh loan reduced it further. Higher terms had to be offered as the aggregate of the debt increased and the market price of the stocks declined. A point was reached at which new debt would have cost 8 per cent per annum, and it became more economical to levy taxes than to borrow. Pitt now made a second appeal to the patriotism of the nation with his income-tax, which at a stroke doubled his war revenue. It was heroic finance even more than heroic fighting that wore out the French and won for us an honourable peace.

Pitt's policy achieved beyond doubt its first and main object to carry through the war successfully. From that point of view his finance may be a model to all future time for energy, thoroughness, and intelligibility. In the end his sinking fund broke down, but not from internal weakness. It collapsed under the weight of the second Napoleonic war, which lasted twice as long and was more than twice as costly as the first.

British Finance Ministers inherited from Pitt not only ideas, but methods and machinery which if maintained would have enabled them to face with confidence the severest financial crises. It is hardly conceivable that the Empire should ever again be exposed to a more perilous crisis than that through which he carried it triumphantly. But how feebly have his successors followed his great example! We say nothing of the Addingtons and Castlereaghs who came immediately after him, and whose muddling of the second Napoleonic war very nearly doubled the national debt. In the first fifteen years of the nineteenth century they raised it from 450 millions to over 860 millions sterling. Bungling like theirs need cause no surprise, for they had not a shred of financial genius among them. But when we come down to the Crimean War, and have to deal with financiers like Mr Gladstone and Sir George Cornewall Lewis—enjoying in that line even greater reputations than Pitt himself—it is remarkable how feebly they rose to a great occasion compared with him.

The financing of the Crimean War was conspicuously lacking in the qualities of courage and clear-headedness which carried Pitt so well through his far more trying ordeal. Mr Gladstone had the first turn at it, and he started on high moral ground from which there had to be a speedy descent. War he regarded as blood-guiltiness to be penalised by payment on

the nail. "The expenses of a war," he said in his Budget speech of 1854, "are the moral check which it has pleased the Almighty to impose on the ambition and the lust of conquest that are inherent in so many nations."

Though when he spoke thus (March 1854) a rupture with Russia had actually occurred, and the Government had resolved to send 25,000 men to Malta as an advance-guard, he would make no provision for them beyond doubling the income-tax for the coming half year. Two months later he had to go a step farther and submit supplementary estimates for nearly seven millions sterling. New taxation had to be imposed to that amount; but as the new taxes would not be coming in at once, Mr Gladstone had to stultify himself by raising money in anticipation of them. Here was a clear case for a straightforward loan, and any one but a financial casuist would have met it in that way. But Mr Gladstone had to find a salve for his moral scruples, so he invented a new kind of borrowing which he could say was not a loan. He obtained leave to issue Exchequer bonds to the amount of six millions sterling, which he divided into three series of two millions each. They were made redeemable in four, five, and six years respectively (1858, 1859, and 1860).

The Exchequer bond thus introduced by Mr Gladstone has since played a considerable part in imperial finance. It proved useful to Sir

Stafford Northcote in times of financial stress, when exceptional expenditure had to be met in connection with the Russo-Turkish crisis, the Afghan campaign, and the Naval Defence agitation. Sir Michael Hicks-Beach also deemed it a good precedent to lay hold of. There is certainly room for it in our financial system; but its proper functions have never been exactly defined, and it has been applied in the most diverse ways. Even in the official mind there appears to be the most hazy notions as to what are suitable occasions for it.

In the City Exchequer bills and their functions have come to be fairly well understood. They are on practically the same footing as commercial bills, and serve a similar object—to anticipate future income. Being for short terms—three, six, or twelve months—they cannot remain long in circulation, and they are automatically redeemable. The Exchequer bond is professedly a development of the Exchequer bill, but it has some new and special characteristics. Its distinctive purpose is the postponement of liabilities rather than the anticipation of revenue. The safest course would be to regard it as a short-term loan, and as such it would be a convenient method of spreading exceptional expenditure over a moderate number of years. Mr Gladstone began with a six-year term, though as a matter of fact his six-year

bonds lived a good deal longer, having been renewed in 1860 instead of being paid off. That is one of the defects of the Exchequer bond from the taxpayer's point of view, though a convenience which may be commended to Finance Ministers.

If the precepts which Mr Gladstone laid down in his Budget speech of 1853 had been applied to the Crimean War, and to all other wars since that date, as thoroughly as Pitt carried out his financial principles of 1793, we might now have a consistent code of national finance. As it is, our financial history is interlarded with maxims, all very good in themselves, but unconnected with each other, and having still less connection with actualities. They are barren, disjointed, and pointless. If Mr Gladstone had devoted himself entirely to finance, and if he had possessed the practical logic that translates thought into action, the race of hand-to-mouth Chancellors of the Exchequer might have been dead long ago. Thanks to his weakness, it still lives and flourishes.

Instead of now having a graduated Budget, with various branches of revenue adapted to the various classes of expenditure—regular, exceptional, and emergency,—we have been plunged into a muddle of budgeteering experiments the results of which become more and more alarming. They have introduced utter confusion and

uncertainty into our system of taxation. Where improved organisation and greater simplicity were urgently needed, they have created fresh complications and intricacies. The State is being loaded up with new obligations, and the margin of emergency revenue is being rapidly cut away to nothing.

SUMMARY OF CHAPTER XI.

The legend of our foreign policy being "continuous." It is in fact the most erratic and spasmodic element in our history. Catchwords that serve for policies. Strong men at the Foreign Office. Our foreign policy in 1853 which drifted into war. Our foreign policy of 1878 which came within an ace of war. Kinglake's doctrine of international wrongdoing. The Foreign Office motto should be that "it is the unexpected that generally happens." Kinglake's maxim openly violated in Tripoli without rebuke or protest. Sir Edward Grey criticised by the disciples of Lord Morley. What is "representative democratic" diplomacy? Mr Lloyd George's irruption into the Franco-German negotiations about Morocco, and the storm it raised in Germany. Supreme importance just now of a strong Foreign Secretary, with a dominant voice in the Cabinet. Armaments and foreign policy must go hand in hand. German *Weltpolitik* is a dangerous game for British Ministers to take part in, especially after dinner. The Hour and the Man.

MODERN WARS AND WAR TAXES

PART III. ELEMENTS OF MILITARY STRENGTH

CHAPTER XI. AN INTELLIGIBLE FOREIGN POLICY

MANY qualifying adjectives, some complimentary, but most of them otherwise, have been applied to British foreign policy. It has passed through the whole gamut of laudation from "bold" and "spirited" up to "heaven-born." Also through the whole range of dispraise from feeble to imbecile. The stereotyped compliment it receives is rather non-committal. In debates on the Address and other full-dress performances of Padgett, M.P., it is invariably spoken of as "continuous." The public are invited to think of it as a sacred stream of tradition descending from some diplomatic Olympus, and spreading over the sandy wastes of democratic mediocrity.

But one thing it never has been called, and

for good reason. No one, not even the most devout worshipper of the Foreign Office, has ever said that it was intelligible. Apparently that has been deemed an impossible and unreasonable achievement of British diplomacy, or for that matter of most other diplomacies. The mere thought of it has become so hopeless that nobody nowadays expects diplomatists to speak the language of ordinary human beings. In most countries it would be no great loss if they never spoke at all. We all know, of course, that they would be only too glad to pose as sacred and speechless oracles. Impressed with this noble thought, the House of Commons has almost entirely given up asking diplomatic questions.

British foreign policy has become to a large extent legendary. In the sense of a definite plan of action in foreign affairs—a plan thought out by well-informed statesmen, adapted to the special conditions and obligations of the Empire, understood and accepted by the people, and backed with all the necessary means to carry it out to the bitter end—we have no foreign policy, and seldom ever had one. We could not, in fact, have it, for it would be entirely out of harmony with our Parliamentary habits and traditions. At times we have had good substitutes for it in Foreign Ministers of personal ability and character and men who could rise to the full height of great occasions and emergencies. Each of these men had a policy

of his own which he realised more or less successfully. But in most cases it died with him, and had no lasting influence on the subsequent evolution of the Empire.

Phrases coined by these exceptional statesmen were caught up by the multitude, and became for a time the rude watchwords of a foreign policy. They were echoed by Padgett, M.P., by Tapir and Tadpole, and by after-dinner politicians generally. "Peace with honour," "The best way to preserve peace is to be prepared for war," "Put your trust in God, and keep your powder dry," have all in turn done duty for patriotic mottoes. The Foreign Office itself has coquetted with them, and they have formed a link between the Cabinet and the man in the street.

When there was no Chatham or Pitt or Canning or Palmerston or Beaconsfield available, we have had to get on as we best could with Foreign Ministers who were more familiar with catchwords than with concordats or protocols, and more at home with Parliamentary platitudes than with diplomatic precedents. On the whole, they have been wonderfully lucky in keeping out of serious scrapes. That has often been the chief aim and object of their policy. While in smooth water they could maintain the dignity of their office, and sometimes even pass for statesmen. At the first sight of danger, however, they were apt to lose their nerves and their heads together.

Now that the biographing and autobiographing of public men has become universal, many tit-bits of Cabinet history are to be culled from these posthumous revelations. Nearly sixty years after the event we can have glimpses behind the scenes of 1853, when a British Ministry, with the best possible intentions, combined with a maximum of indecision, allowed themselves to drift into the disaster they had all along been striving to avoid. That fatal drift might have been repeated in the Russo-Turkish War of 1877, had there not been at the head of the Cabinet a man whose courage was equal to his imagination, and his freedom from convention unique among British statesmen. Lord Beaconsfield had a foreign policy all his own. It was romantic, Oriental—everything but what is usually known as British. He had such a moral and political ascendancy over his colleagues, that they gave in to him—often with grave misgivings. The Oriental idealist induced a dozen or more plain, straightforward, conventional Englishmen to risk a European war for the sake of his ideals. There could never have been a more conclusive proof than this that Englishmen have no distinct foreign policy descending from generation to generation and always adapting itself to changing circumstances, but never relaxing its main principles.

An odd paradox in our diplomatic history has brought it about that the best expositions of our foreign policy are due, not to Foreign Ministers

or Parliamentary authorities, but to political writers. There are more theories and doctrines of military ethics in histories like Kinglake's than in all the despatches that have issued from Downing Street in the past half century. In the preface to his 'History of the Crimean War,' he states very concisely the conditions under which war might be not merely justifiable in a nation, but a matter of international duty.

> When a wrong [he says] is being done against any State, great or small, when that wrong in its present or ulterior consequences happens to be injurious to one of the five Great Powers, and, finally, when the Great Power so injured is competent to wage war with fair hopes,—then Europe is accustomed to expect that the Great Power which is sustaining the hurt will, for its own sake as well as for the public weal, be ready to come forward in arms, or to labour for the formation of such leagues as may be needed for upholding the cause of justice. If a Power fails in this duty to itself and to Europe, it suddenly becomes lowered in the opinion of mankind; and, happily, there is no historic lesson more true than that which teaches all rulers that a moral degradation of this sort is speedily followed by disasters of such a kind as to be capable of being expressed in arithmetic, and of being in that way made clear to even the narrowest understanding.

With equal clearness and precision the same authority set forth the safeguards against abuse of the war prerogative. In terms singularly like those of Mr Norman Angell's "Great Illusion," he showed how the tremendous risks attending

modern war must always act as a check on its wanton provocation.

In these days the exigencies of an army are vast and devouring. Also modern society, growing more and more vulnerable by reason of the very beauty and complexity of its arrangements, is made to tremble by the mere rumour of an appeal to arms. And upon the whole, the evils inflicted by war are so cruel, and the benefit which a Power may hope to derive from a scheme of aggression is commonly so obscure, so remote, and so uncertain, that when the world is in a state of equilibrium and repose, it is generally very hard to see how it can be really for the interest of any one State to go and do a wrong clearly tending to provoke a rupture.

In writing as well as in reading theoretical or philosophical treatises, it is highly advisable to keep in mind the old proverb that "it is the unexpected that generally happens." We have at the present time (1911) not merely one but several illustrations of that paradox. One of the principal sea Powers of Europe has suddenly, and in open defiance of all the recognised canons of international law, seized territory belonging to another Power. It has not only done a wrong of the sort which Mr Kinglake half a century ago thought it so hard to see any advantage in for itself. It has not only done the wrong he deprecated, but it has provoked the rupture which he feared would follow.

Italy has done everything in Tripoli that ought to bring down on her the rebukes of all the other Powers which profess to hold themselves respon-

sible for the peace of the world. Their acknowledged responsibility for international peace and justice is the principal reason they give for maintaining bloated armaments. But in this flagrant case there has been no rebuke, no protest, no demonstration of any kind,—not even a word from the British Government, which was supposed to be the disinterested friend of peace, freedom, and justice. The Cobdenite doctrine of non-intervention has been observed to the letter. It has been carried so far, that even the organs of the Cobden Club begin to complain.

Sir Edward Grey being lectured by the disciples of his colleague, Lord Morley, for his masterly inactivity at the Foreign Office is a curious spectacle indeed. It shows how muddled and confused our ideas of foreign policy have become. It also warns us that the old order has changed, and that the new order does not yet know where it is. But its most impressive lesson is the futility of the millennial anticipations which were beginning to lead astray, not only idealists and enthusiasts, but also responsible Ministers of the Crown. Mr H. W. Massingham, a Press champion of the new democracy, has been asking of late, "What is our foreign policy?" and the answer he gives to his own question is more candid than reassuring.

A Liberal Government [he writes] has been in office for six years. During that period the Foreign Secretary has not made one full, candid, and informing state-

ment to the House of Commons as to the principles of our foreign policy, the nature of the arrangements we have made with the other Great Powers, or our action in specific events of the highest consequences.

Another Press champion of the new democracy, the editor of 'The Economist,' endorses Mr Massingham's complaint, and enlarges upon it thus:—

We confess to sharing Mr Massingham's regret that the House of Commons and the country have been getting so little information about things that are so vital. It seems to us to be a function of self-government that the general direction of our foreign policy should be discussed, and that those who are responsible for it should not shrink from the daylight of criticism. If the aims and methods of the Foreign Office throughout the Morocco negotiations, now happily ended, have been wise and prudent, it is well that they should be known; if our diplomacy is dark, dubious, unfair to others, unworthy of our traditions, injurious to British interests, then a public discussion is not merely desirable but imperative with a view to amendment. . . . A one-man policy lacks strength, and secrecy is no guarantee of success. Moreover, the penalty of secrecy is a constant leakage of secrets, along with mischievous whispers, rumours, and false reports. The newspapers are beset with alarmist interviews and unfounded panics. There is an atmosphere of suspicion. If secret diplomacy suits a despotism, it fits ill with a representative democracy.[1]

Lord Morley himself could not have put the case for diplomatic publicity better or more con-

[1] 'The Economist,' November 4, 1911.

vincingly than that. The House of Commons and the country are of course entitled to know "the general direction of our foreign policy." That has been for generations a Parliamentary truism, and all Foreign Secretaries have professed the greatest respect for it. But it has rarely enjoyed much real honour in practice. Now and then a strong Foreign Minister has dared to show his hand even in the midst of the most intricate negotiations, but as a rule they have not had a hand worth showing. The editor of 'The Economist' appears very much afraid that that is the case with Sir Edward Grey, especially in regard to the Morocco crisis, with the solution of which he is as little satisfied as the Germans themselves. He is very sceptical, indeed, as to the success with which British interests have been safeguarded in these prolonged and complicated "conversations."

If we reduce the French *entente* to terms of British interest, the only apparent advantage is that we have surrendered our own interests in Morocco in return for some French concessions as regards the administration of Egypt, and consequently we have been unable or unwilling to support the demand of Germany that an open door, a fair field, and no favour shall be maintained for foreign commerce in Morocco. (According to Mr Morel, our Foreign Office has been equally neglectful of the open door in Central Africa.) And if Germany had not acted in this sense, there is every reason to suppose that a high preferential tariff would soon have excluded British goods from Morocco. Are

we similarly entangled by our diplomacy in Tripoli? Are we bound to acquiesce in this act of pillage, and if the act is successfully consummated, are we bound to allow another preferential tariff to be erected against British exports? Why, in the name of consistency, did we not follow our own precedent in the far less objectionable act by which Austria converted her *de facto* rule into a *de jure* sovereignty over Bosnia and Herzegovina?

Why, indeed? The reasoning of 'The Economist' is faultless and unanswerable. There can be no answer given to it which will square with the facts of the situation and also with Foreign Office legends. I do not say the principles of our foreign policy, because they have always been more or less invented for the occasion. Sir Edward Grey's special and peculiar failing has been lack of inventiveness. In his place Lord Palmerston or Lord Beaconsfield would have started a new catchword which would have tickled the public ear and might have served for a policy. Sir Edward Grey has not as yet shown any sign of possessing that indispensable faculty. One or two of his colleagues have very zealously undertaken to supply it for him, but their experiments have been disastrous.

Mr Lloyd George's irruption into the field of foreign politics in July 1911 was particularly unfortunate. No ministerial speech of the year—and their number was legion—concentrated such an amount of mischief in so few sentences. It was a foolish utterance made by the wrong man,

at the wrong time, in the wrong place, and to the wrong audience. The commencement of the Morocco negotiations between France and Germany was the worst possible time for a British Minister to say a word on the subject. If anything required to be said, it should have been said officially and in the most courteous manner possible.

The German people had taken it into their heads that it was not France they had most to fear in the Morocco negotiations, but her British ally. They were obsessed with the suspicion that worse difficulties would be made in London than in Paris. In these awkward circumstances the obvious duty of a British Minister was to keep as much as possible in the background. Or if he felt it to be his duty to interfere, it should surely have been on some distinct and specific ground arising out of the German proceedings. Above all, it should have been direct and official interference made through the ordinary diplomatic channels.

According to Sir Edward Grey's own explanation in the House of Commons, he took up the ambiguous ground that British interests *might* be affected by the negotiations. But he gave no indication what special interest he felt concerned about. Had he, in fact, made up his mind to object to anything in particular the German Government was doing — to the occupation of Agadir, for example? Where he drew the line against German action is a mystery to this day.

As to what the Germans thought of it all we can no longer be under any delusion. Their resentment was fierce and furious. An outburst of personal attacks on Mr Lloyd George by leaders of all the political parties in the Empire culminated in a discussion in the Reichstag which has done unparalleled injury to the relations between the two leading States in Europe. All this came as a piece of post-prandial bluff from a politician whose Parliamentary success in that art has misled him into the idea that it is as irresistible a weapon in foreign as in domestic politics. The principal passage in this ill-starred oration deserves to be pilloried as a permanent warning to democratic politicians to leave diplomacy severely alone :—

> I believe it is essential in the highest interests not merely of this country but of the world, that Britain should at all hazards maintain her place and her prestige among the Great Powers. . . . I would make great sacrifices to preserve peace; I conceive nothing that would justify the disturbance of international goodwill except questions of the gravest national moment; but if a situation were to be forced upon us in which peace would only be preserved by the surrender of the great and beneficent position Britain has won by centuries of heroism and achievement, by allowing Britain to be treated where her interests were vitally affected as if she were of no account in the Cabinet of Nations, then I say emphatically peace at that price would be a humiliation intolerable for a great country like ours to endure.

At the present juncture by far the most im-

portant and responsible position in the Cabinet is that of the Foreign Secretary. He is the man who may do the most good or the most harm to the Empire, according as he acts wisely or unwisely in the complex crisis through which all Europe is passing. None of his colleagues is credited with any special qualification for assisting him in his arduous task. Some of them are shrewdly suspected of being more likely to hamper and weaken him. The least that can be asked of them is that none of them will repeat the impertinent and mischievous interference with his policy which Mr Lloyd George perpetrated at the Mansion House in the course of the Morocco negotiations.

It is the A B C of military science that foreign policy and armaments should go hand in hand. If so, the Foreign Minister should have a weighty voice in deciding how they are to be planned and maintained. They should, as far as possible, be instruments fashioned and fitted for a particular service. Such were the Ironsides of Cromwell, and in a still higher degree the Prussian army, with which Prince Bismarck's long-sighted policy was carried out in the war of 1866 against Austria. The present German army, if not so specifically objective as that of 1866, is far from being an army at large. It has two possible uses—one in the East and another in the West. The possible use of the German navy is even more restricted.

But however much opinions may differ on

these objective points, there can be no doubt as to the immense advantage of a military force having a consistent and intelligent foreign policy behind it. Such a combination saves waste, and the lack of it in our own case has entailed a frightful amount of useless expenditure. It also increases military efficiency and fighting power. An army or a navy which has been created for no particular reason and without a specific plan cannot be expected to strike so promptly or so hard as one that has both these qualifications. The political system under which they have been created may also produce very important differences in their character.

In our past history nothing can be clearer than this, that foreign policy of the scientific sort is not our forte. We have neither aptitude nor love for the diplomatic game. *Weltpolitik* we are quite willing to leave to its German inventors and practitioners. Hitherto we have believed with almost fatalistic persistence in the hour and the man, and invariably the man has arrived in the nick of time. Once more we are looking for him, but not at the Foreign Office or anywhere in the neighbourhood of Downing Street. Where he is to come from Heaven only knows, but we have been in as bad corners as this before, and a Chatham or a Wellington or a Lord Roberts has pulled us through.

SUMMARY OF CHAPTER XII.

No definite standards of military strength. Diversity of military policies. Some are content with the *status quo*, some are not content, and some have an eye to future chances. Analogy between the Military Powers and the Socialists with regard to the existing distribution of the things worth living for. The growth of armaments tends to increase the dangerous habit of "sabre-rattling." Our sovereignty of the seas bound to be challenged by the younger naval Powers. In future it may be contested by combinations of Powers instead of by individual Powers. The plain citizen wants a military force he can put confidence in. Strong navy *versus* cheap navy discussions are tantalising to him, as he can form no satisfactory judgment of his own regarding them. Formulas of naval strength have gone out of date. The problem of possible invasion of the British islands still unsolved. Our land forces. The manifold demands on the regular army. What it cannot do has to fall on the Territorials and the Special Reserve. Are the Territorials a real or a sham force? Remarkable admissions of the Ministerial press. 'The Westminster Gazette' says that they are not a popular institution, and that both officers and men are penalised in civil life for their patriotism. Mr Winston Churchill's declaration that naval supremacy is "our whole foundation." Colonel Henderson on the relative value of armies.

MODERN WARS AND WAR TAXES

PART III. THE ELEMENTS OF MILITARY STRENGTH

CHAPTER XII. AN ADEQUATE ARMY AND NAVY

WHAT are adequate armaments? That question has in Scottish fashion to be answered with another. What are the standards by which the adequacy of armaments should be judged? Like the Hindoo account of the creation, this second question only leads us back to a third. How are the standards of adequacy determined? who settles them, and on what principle are they settled?

Probably every military Power in the world, if it were driven into a corner and forced to give specific answers to these questions, would answer them differently. Without any disingenuity or lack of candour they might have to answer them differently, for the simple reason that in each case the answer would to a large

extent be determined by peculiar circumstances and conditions.

Certain military Powers honestly desire to limit their armaments absolutely to purposes of national defence. They are content with their existing conditions, and covet nothing that any other nation has a fair right to. Other Powers which have been less fortunate in the past, which have come too late into the field of conquest and colonisation, cherish a perfectly natural wish to be able to avail themselves of any opportunity which may occur hereafter of making up for lost time in the past. Such a state of mind is not to be wondered at. Still less is it to be condemned, so long as it is not accompanied by unwarrantable aggression on other States.

Nations with extensive colonial possessions, and nations with very limited colonial possessions, can never be fair judges of each other's conduct — least of all, of each other's military policy. There is a gulf between them which cannot be bridged over by Hague Courts or by academic schemes for the limitation of armaments. Their only escape from the chronic peril of armed rivalry lies in patient waiting on the course of events. Time and tide may do what has so far proved beyond the skill of statesmen and diplomatists. Meanwhile the building of Dreadnoughts against nightmares has to go on.

The Military Powers are in a dilemma analogous to that of the Socialists and anti-

Socialists in political life. They are dissatisfied with the distribution of the good things which seem to nations to be worth living for. There is a half-conscious yearning among some of them for a redistribution of territory and power. Hitherto it has not gone farther than diplomatic competition for outlying fragments of the globe which are not altogether able to take care of themselves. There are political and financial derelicts surrounded by would-be protectors. In such diplomatic duels armaments play what may be called a passive *rôle*. They are freely used nowadays for sabre-rattling and other stage purposes. Ridiculous, however, as that may look to the philosophic observer, it has grave dangers, inasmuch as sabre-rattling is often the prelude to war.

As armaments increase and become more formidable there will of course be a greater tendency to indulge in sabre-rattling. The growth of naval power is in a special degree subject to this danger. Navies are much more mobile than armies. They get into action more quickly, and can be more quickly put out of it. They have seas and oceans to operate in, and whatever the result of a naval battle, it is likely to be more decisive than that of a battle on land. Hence the greater attention that is now being given to naval as distinguished from military armaments. A quarter of a century ago there were only two first-class navies in Europe: now

there are half a dozen, to say nothing of two new navies outside of Europe — namely, those of the United States and Japan.

The armament problem was sufficiently complicated before these new factors forced their way into it. They are growing larger year by year, and acquiring greater influence in the determination of questions of peace and war. The Sovereignty of the Seas, which for more than a hundred years has been the acknowledged prerogative of Great Britain, may in the near future be challenged, not merely by single Powers or by two allied Powers, but by a combination of Powers. Their navies, though individually small, may form a formidable aggregate. On the other hand, it will be as open to us as to our possible rivals to form naval combinations which could dictate to Europe.

But what we have to learn from the sudden and gigantic development of naval power now taking place in Europe is, that the days of individual supremacy are fast passing away. Our Prime Ministers and First Lords of the Admiralty may continue to prate about the two-Power standard as long as a complacent House of Commons will listen to them; but plain people begin to see that such talk is out of date, — that it is mere Parliamentary and electioneering gag. Even if the figures of the present day could be so juggled with as to show that we have a substantial margin above the two

next largest navies, that would be a very poor assurance as regards the future.

The rage for Dreadnoughts is now so strong among all the military Powers of the world that no one can foretell how many of them may be in existence ten years hence. For a year or two longer we may content ourselves with measuring our fleets against those of Germany; but after that it will not be single navies, but combinations of them, that will be pitted against each other. When not only Great Britain, France, and Germany, but Russia, Austria-Hungary, and Italy, have first-class navies, are the whole half-dozen of them likely to live peaceably together like gold-fish in a bowl? Rival combinations and re-combinations will be almost inevitable.

In times like these every nation which realises its military duties and responsibilities will endeavour to have always before it a definite idea of its ability to fulfil them to the last extremity. It will take stock of its army and navy as machines for a given purpose. It will study them in all their different aspects and relations. It will ascertain their weak and their strong points, and be careful neither to overrate the one nor to underrate the other. It will see that, whether large or small, they are all genuine—that there is no make-believe about them: no wooden shells, such as the Imperial Army of China have been using against the revolutionaries; no Territorial shams and no

"blue water" illusions about invasion being impossible.

The majority of these intricate questions have to be left to experts. The plain citizen cannot attempt to answer them for himself. But some are so simple and obvious that he can form his own judgment of them on personal experience and observation. He knows what he can put confidence in and what he cannot. The British force with which he is best acquainted is, unfortunately, the one in which he has least faith. Our regular army he knows to be still what it was in the days of Wellington—fit to go anywhere and do anything. But, excellent as it is, it has two grave defects, or rather limitations. Its numbers are ridiculously small for the work it has to do, and it cannot be in two places at once. It may at any moment be urgently called for at the farthest ends of the British Empire, and when it goes it leaves the centre of the Empire as near as possible defenceless.

In the absence of the army proper—our so-called "expeditionary force" — the United Kingdom would depend on two lines of defence, both of which are subjects of continual and increasing controversy. The strong navy and the cheap navy politicians carry on a futile argument on one hand, while on the other universal service and territorial service are the rival war-cries of a discussion which goes round and round in a vicious circle. It seems impossible for the disputants to

convert each other, and still more to convince the public.

This state of deadlock is in itself a serious danger. Next to efficiency, the chief requisite of an armed force is that it should possess the confidence of those who pay for it and look to it for protection. Suppose for a moment that the people of London had no confidence in their police; that they were always discussing its shortcomings and comparing it slightingly with the rampant forces of rowdyism and crime! Such a condition would not be good either for the police or the ratepayers or the criminals. The public would soon revolt against it, and demand that the force be raised above doubt or suspicion.

Up to a certain point the analogy between the police and the navy is complete. Only at the last point it fails. It is comparatively easy to estimate the highest strain ever likely to be placed on a police force, while it is almost impossible to estimate the highest strain which may hereafter be placed on a given navy. The latter eventuality borders on an unknown quantity. Hitherto certain formulas of the "two keels for one" order have been used to measure it, but naval conditions have changed so greatly in the past decade as to put them out of date. No single Government in Europe can foresee its possible naval requirements for even a few years ahead. Its precautionary arrangements have, therefore, to be made in the dark.

In most of the Military States the army problem is much nearer the final solution than the naval problem. "The nation in arms" is a definite policy of national defence. It represents the supreme effort of a State to ensure the safety of its territory and its people. Nothing short of that can nowadays furnish real security to any State. For oversea service more perfectly organised, longer trained, and better equipped forces are of course needed. They can be easily got by having the pick of the universal service men trained into a select force for special service. The British regular army is, in fact, of this sort. Its title, "expeditionary force," implies that it consists of picked and highly trained troops.

Any European State grafting on its universal service army a super-fighting force of this sort might have us at a fatal disadvantage. Our super-fighting force would be our all, while the Continental State would have from a million to five millions of trained citizen soldiers in reserve. It might easily happen, therefore, that as soon as our expeditionary force sailed for India, South Africa, or Egypt, a foreign foe would make a dash at some vulnerable point or points of our coast. Either this might happen or something hardly less disastrous. Our expeditionary force might have to be retained at home to repel threatened invasion, and India or Egypt, as the case might be, would have to be sacrificed.

The British naval problem has entirely changed

its character since the possibility of successful invasion began to be entertained. While it was scouted both by naval authorities and politicians, the British public troubled themselves little about it. But since it became a matter of doubt the national standpoint has altered. Oddly enough, it was the report of the Balfour Committee of 1905, which was intended to lay the invasion bogey, that gave it fresh life. Ever since then misgivings on the subject have increased and spread more widely. To-day we are much less certain about the inviolability of British soil than we were previous to 1905. Invasion is now regarded, not only by naval alarmists but by cool-headed men, as a fresh risk which we can no longer afford to ignore.

This involves another fundamental change in our military policy. If there be one chance in a thousand of a foreign expedition effecting a successful landing on any part of the British or Irish coast, defensive precautions will be needed which have not been seriously thought of hitherto. Such a force would consist of picked men with the most effective arms and equipment known to military science. As a safeguard against it we should either have to keep at home the expeditionary force, whose proper duty was to defend the outlying parts of the Empire, or we should have to risk everything on the Territorials, who are not recognised either as regulars, militia, or volunteers.

Their creator, Lord Haldane, has contrived to produce, entirely out of his own head, something which is neither fish, flesh, nor good red herring. He himself can no longer conceal his uneasiness at the result of his laborious experiment. His colleagues in the Cabinet give him very scant support and encouragement. His political party avoid the subject as if they had lost all interest as well as all faith in it. Those who advocated it as a heaven-born substitute for universal service see their last hope of the voluntary system gone. They admit the failure of territorialism, but they appear to be still far from prepared for the only remaining alternative—universal service.

For the moment it is enough that the failure of the latest, and let us hope the last, colourable imitation of a citizen army has been recognised. Even Ministerial organs have had the courage to make this sad confession. A confidential mouthpiece of the Government, 'The Westminster Gazette,' published during the autumn of 1911 a series of articles on the Territorial outlook which were as little encouraging to the Territorials as to the public. The writer ("Civis") frankly admitted that the force "is not a popular institution in the proper sense of the term." There is, he added, "an aloofness in the attitude of most people towards those who are serving in it which is wholly regrettable. At best the Territorial soldier, be he officer or man, is regarded with

patronising toleration. At worst he finds himself definitely penalised in civil life."

This is followed by other admissions still more surprising, in view of the quarter they come from. Having described the disadvantages which the Territorial soldier is liable to suffer in business through his exceptional patriotism, "Civis" proceeds to show how these evils are escaped under the universal service system.

> In Germany or France, of course, all these difficulties are avoided by the mere fact that citizen service is obligatory. The army in these countries is a really national institution, and there is not the least danger that a man's chances in life will be prejudiced even if he undertakes the obligations of a Reserve officer.

"Civis" becomes more and more paradoxical as he proceeds. Rejecting the obvious conclusion that universal service is the only means of obtaining a real citizen army, he argues that what is needed is for the public to realise that, in the event of war,

> the expeditionary force would sail the moment it was necessary, and the garrison and protective work at home would be intrusted almost entirely to the Territorial army and to a few weak battalions of the Special Reserve

If this were properly understood, and if it were realised that "the existence of the Territorials is to this extent an effective factor, not only in war

but in securing an effective policy for the country," there would, he predicts,

> be no talk about the falling off of recruits. The difficulty would be all the other way: recruits would be tumbling over each other to join a service which was so eminently worth while, and County Associations would be clamouring on all sides for increased establishments to admit them.

Meanwhile the public do not realise the noble *rôle* which Lord Haldane has in reserve for the Territorials, consequently "Civis" has to lament that they are neither "a popular institution" nor a real citizen army. He reminds them, for their encouragement, of Lord Haldane's latest announcement, that,

> in the event of a great European war, his Majesty's Government would not hesitate to call out the whole of the Territorial force immediately, and retain them under arms during the absence of the expeditionary force abroad.

With all due respect for the founder of the Territorials, it may be submitted that any Government of his Majesty who sent them in their present state against an invading force of picked soldiers, would be consigning to wholesale slaughter the best youth of the country. Whatever else about our national armaments may be disputable, on this point there can be no rational doubt whatever.

The bare fact, as stated and attested by a leading organ of the Cabinet, that in the absence

of the expeditionary force our own shores would have to be defended by Territorials "and a few weak battalions of the special Reserve," is a confession of military weakness which could hardly be exaggerated.

At least we might have thought so, previous to Mr Winston Churchill's speech at the Guildhall last Lord Mayor's Day, in which he struck the keynote of his administration as First Lord of the Admiralty. Coolly assuming that all his anti-naval antecedents could be wiped out with a stroke of the sponge, he proceeded to glorify his new office at the expense of the army. The latter he treated as a negligible quantity. "The maintenance of naval supremacy" he declared to be "our whole foundation."

> Upon it [he said] stand not the Empire only, not merely the great commercial prosperity of our people, not merely a fine place in the world's affairs, but upon our naval supremacy stand our lives and the freedom we have guarded for nearly a thousand years.

In short, when Mr Winston Churchill saw fit to migrate from the Home Office to the Admiralty the navy became our all in all. Had he exchanged places with Lord Haldane instead of with Mr M'Kenna we might with equal solemnity have been adjured not to stake everything on one line of defence. Less than three years ago, when the navy estimates were still the most effective bogey on Radical platforms, he ridiculed "the braggart and sensational policy of expenditure on arma-

ments." Later in the same year (1909) he told his constituents at Dundee that the Government "were not going to be drawn into a showy, sensational, and Jingo policy, supposed to gain popularity from certain unthinking sections of the community."

These inconvenient reminiscences may be waived aside as electioneering gag, but there was one other declaration too specific to be lightly dismissed. Now that he has come out so strongly for "the blue water school," how is he to explain away his sneers at it two years ago as the "blue funk school"? Were they merely intended to give dramatic effect to his declaration at the Guildhall that "the maintenance of naval supremacy is our whole foundation"?

It may or may not be. However many high authorities may have declared in its favour, it is not accepted by the nation at large as a final dictum of national defence. And however strong our first line of defence may be made, that is no excuse for underrating or neglecting the second. Still less excuse is it for having a sham second line of defence, which we all know, and all the world knows, to be a sham. It might be safer to dispense altogether with land defences than to trust in a make-believe such as the Territorial army is in the opinion of the semi-official, 'Westminster Gazette.' It is not Lord Roberts alone who has warned us against this suicidal risk. Years ago other military authorities foresaw and condemned it. Among others, the late Colonel

Henderson pointed out the inherent defects of a loosely organised and half-trained body like the Territorials. In his book on the 'British Army' he wrote[1]—

> But the relative value of armies is not to be arrived at by counting heads. Force, which cannot be concentrated at the point of conflict, is hardly worth taking into account. If the elements of such force lack homogeneity—if they are so loosely organised that their moblisation is slow, and their transfer to the scene of action a matter of months; or if by reason of their geographical distribution or their political environment they can only be employed for purposes of local defence, it is manifest that an imposing total is very far from a guarantee of the swift action and the heavy blows which war so imperatively demands.

When Tennyson wrote about our navy being our "all in all," our supremacy at sea was so overwhelming as to allow ample margin for poetic licence. But it may be doubted if he would have been an "all in all" navy man under the very different conditions which prevail at present. Even Mr Winston Churchill recognises that the margin of our supremacy at sea is narrowing. It may soon reach a point at which even ruinous expenditure on the navy will not ensure absolute safety. Were there a merely infinitesimal chance of that, it should suffice to make us think seriously of our land defences. So far they have not been treated seriously, and therefore they cannot be trusted implicitly.

[1] Colonel Henderson's 'British Army,' p. 382.

SUMMARY OF CHAPTER XIII.

"The financial interdependence of the modern world" a catch phrase invented by Mr Norman Angell. His assumption that the international banking system would be badly upset by a European war is not necessarily correct. It is contradicted by actual experience in the various wars of 1911. Neither in war nor peace can the operations of international finance be confidently forecast. Napoleon's fatal mistake in the Berlin Decrees when he attempted to cut off England's foreign trade. Both belligerents interested in protecting international credit as far as they can. Proposed German precautions on the outbreak of war said to include the closing of the Savings Banks for a year. Peace theorists and practical bankers. Mr Frederick Harrison's pessimist predictions and Mr Norman Angell's millennial predictions are exaggerated extremes. From the days of the Lombards war has been on the whole profitable for banking and financial interests. The telegraph, the telephone, and the Stock Exchange have rendered international finance less vulnerable instead of more so. The Turkish-Italian War caused little or no financial disturbance. The efforts of the international banks to minimise war risks. The London banks have more control than formerly over credit operations throughout the world. They are now in close touch with each other and with the Bank of England.

MODERN WARS AND WAR TAXES

PART III. THE ELEMENTS OF MILITARY STRENGTH

CHAPTER XIII. "THE FINANCIAL INTERDEPENDENCE OF THE MODERN WORLD"

THIS has been a favourite phrase of late in the higher circles of intellectual politics. It originated with the author of the 'Great Illusion,' and is one of the happiest conceits in that highly imaginative book. "The financial interdependence of nations" is indeed a phrase to conjure with, and Mr Norman Angell has evidently surprised himself by his success in conjuring with it. There is undoubtedly such a thing as "the financial interdependence of nations," but it is not what his vivid fancy has painted it. He has some peculiar ideas as to the military treatment of finance and of private property generally in time of war.

In his chapter on "The Impossibility of Confiscation" he very properly ridicules the idea of

a German army looting the cellars of the Bank of England and "carrying off the foundations of our whole national fortune," but his own argument proceeds on the assumption that war is a double form of robbery and destruction,—that it robs and destroys the aggressor as much as it does his victim. The one illusion is as false as the other. There is of course no danger of a civilised army looting the Bank of England, but neither is there much danger of our whole banking system being upset by the first shock of war, as Mr Norman Angell apprehends that it would be.

This is the crux of his argument, the kernel of his doctrine. By it he must stand or fall, and the chances are at present decidedly against his being able to make it good. He and his disciples must be rather astonished at the firmness with which both the Money and the Stock markets have stood up for weeks and months against a double war crisis. In his prophetic capacity he has had to be content with very small fulfilments of his prophecies. A one-day scare on the Berlin Bourse is all the proof he can claim as yet that "the financial interdependence of the modern world" has reduced acts of war to suicidal and unprofitable vandalism.

His theory is plausible, no doubt, and we might all wish it were true. If we could think so, we should be as zealous as Mr Norman Angell himself in preaching the new gospel of peace which

he has founded upon it. But, unfortunately, it is not true in practice, whatever it may be in theory. The experience of every recent war, and we might say of all modern wars, has been that there is no necessary antagonism between the financial operations of an invaded State and the military operations of the invaders. On the contrary, financial and banking facilities may be even more indispensable to the invaders than to the invaded. There is no reason, either military or financial, why they should not be carried on with as little restriction or disturbance as may be.

If these be the facts, and we see them under our eyes in various parts of Europe at the present moment, then Mr Norman Angell's "Great Illusion" falls to the ground, so far at least as international finance is concerned. Like Don Quixote, he has been tilting at windmills in demonstrating that international finance cannot be upset without causing trouble all round. Of course it cannot, but who wants to upset it? That is the last thing one Military Power would think of doing to another. It would sooner attack the churches and convents than the banking system of an enemy. The latter would be, as Mr Norman Angell says, sheer vandalism, but why did it never occur to him that only an army of vandals could do it, and that there are no such armies nowadays—at least not in Europe?

"The financial interdependence of nations" is undoubtedly a great truth, but Mr Angell has got

hold of it by the wrong end. It may be a safeguard of peace or a menace to it, just as happens. It is not necessarily either the one or the other, but it will be whatever its controllers may make it in a given case. If they are pacifically disposed they can use it as a powerful argument for peace, but if they are inclined to war it will be a very uncertain check on them.

International bankers and financiers are in the same boat with the War Lords and the War Ministers. They will always have a voice, direct or indirect, in the decision of peace or war. As war becomes more costly and requires a larger amount of financing their voice will become more powerful. Whether this is to make for peace or otherwise who can tell? But Mr Angell's theory that soldiers and bankers are natural enemies is absolute fiction: they can be very good friends when they choose, and it is in the interest of civilisation that they should be. Napoleon made the mistake of his life when he tried to hit the British Government a deadly blow through its traders and bankers. The blow recoiled on him so violently that he never got over it. No Military Power of any consequence has ever attempted that kind of fighting since. But Mr Angell appears to think that it is still practised. This is the greatest of his illusions.

His postulate that for any belligerent to attack the national credit of another would be suicidal is perfectly true, but it is not new. Neither is it

applicable to the question at issue. Though there is no rule of international law declaring international credit to be immune it is tacitly regarded as such. Its own nature gives it that advantage. The first thing a sensible belligerent would do when he goes to war would be to fortify and safeguard his credit to the utmost at every vulnerable point. By a merciful disposition of providence he cannot do that and at the same time attack his opponent's credit. As integral parts of the machinery of international finance the two must work together, otherwise international exchange would break down completely.

But this need be no check on their fighting. They may fight none the harder or the longer for it. On the contrary, it may ensure to them a better and steadier supply of the sinews of war, and thus enable them to stretch it out farther. If Mr Norman Angell had studied the financial and military press of Germany as diligently as he has done the hysterical utterances of British and American journals, he would have seen that the preservation of the national credit is one of the most diligently studied war measures. It has even been indicated what some of these precautionary measures might be. When the Morocco crisis was in the most acute stage, various rumours got abroad as to the special steps which might be at once taken to deaden the shock of a declaration of war. One of them was the immediate closing of all savings bank accounts under a Government

guarantee to the depositors for at least a year's interest. If that should be deemed advisable in Germany, it would be much more so in Great Britain, but it may be doubted if any Government, Celtic or Saxon, would venture to do it in Ireland.

The most complex and elusive of all military problems are not those of the army and navy experts. These are, I admit, quite difficult enough, but one more difficult still is what, for lack of a more familiar term, may be called military banking. The precise influence which banking has on questions of peace or war is most puzzling even to bankers themselves. Only of late have they taken it up seriously, and even yet their ideas about it are in too crude a state to admit of their being communicated to the public. It is a double problem they have to solve. From one point of view the question is: Does our modern banking organisation act as a safeguard against the risk of war or otherwise? From another point of view it is: What effect would a great European war have on our modern banking organisation?

On both these points the most absolute diversity of opinion may be heard everywhere. In most cases it is accompanied by great confusion of thought and superabundance of theoretical dogmatising. To a practical banker it must seem funny that theorists should select banking as a subject for their untutored skill. It is the most

unsuitable one they could lay hold of, and the most likely to bring them to grief. The banking world is like a huge workshop, full of the most intricate and delicate machinery, acted upon by a maze of occult and erratic cross-currents. The machines themselves are difficult to understand and to keep in running order. Generations of experts have spent their lives in developing and perfecting them. They now work more regularly than they ever did before, but they are more easily put out of order. Their moving power is as mysterious as the electric current which lights our streets and drives our locomotives.

How universal and, we might almost say, omnipotent a power banking is in times of peace we all know, but what it may become in war is one of the terrible secrets which statesmen and financiers would fain discover, while they shrink from the attempt. It is at once an object of curiosity and dread to them. If it can thus perplex professionals, what hope have theorists and thinkers at large to penetrate the mystery? Their attempts are doubtless praiseworthy: they may even do a certain amount of good in stimulating much-needed inquiry and discussion. But they have not advanced as far as they suppose toward a final solution.

The practical banker is by no means as easily satisfied as his academic advisers are with dreams and visions of a warless world. In order to convince him, there must be less vehement assertion

and more actual proof on both sides. One extremist may easily demolish another without having the slightest effect on the moderate-minded man who in all controversies likes to steer a middle course. He does not shiver at Mr Frederick Harrison's hair-raising prediction that successful invasion "would involve destitution and misery on the people in the mass—which would paralyse industry and raise food to famine prices, whilst closing our factories and our yards." But neither does he accept Mr Norman Angell's comforting conclusion that all the supposed gains of military conquest are illusory, and have only to be exposed in order to put war as completely out of fashion as duelling.

That were a consummation devoutly to be wished, and by no class more earnestly than by bankers. Unfortunately the evidence which Mr Angell offers in its support is as fragile as the theory itself. All the experience we have of the financial and banking side of great wars shows that the monetary difficulty has never been insurmountable. It may have shortened wars, but it has seldom if ever prevented them. Very often the belligerents, when once started, have been surprised at the variety of financing expedients which fell in their way. If they had been told beforehand how much a given war was to cost them, they would have shrunk in horror from the prospect, but once in, they had to struggle through to the bitter end, and they got there somehow.

If in the past financing has never been bogey enough to stave off war, why should it be in the future? This is the question to which Mr Norman Angell specially addresses himself. He tacitly admits that it has been no safeguard in the past, but he thinks that it has now become one, thanks to the "economic interdependence of the modern world." As he and his disciples use it, that is a blessed phrase, even more blessed than "Mesopotamia" was to the old lady in the story. In his latest commentary on it Mr Angell says—

> The economic interdependence of the modern world, which dates mainly from the time when Stock Exchanges were linked to telegraphy, and both to an international system of banking, has added enormously to the wealth of the world; but it has done something more—it has made plain, and is making plainer every day, the real character of the relation of one group of men to another; the extent to which one is dependent on the other; how impossible it is for one to profit by predatory aggression on another.

This is a beautiful thought beautifully expressed, but it leaves us all in the dark as to how the "international system of banking" makes for peace any more than the old national system did. To begin with, Mr Norman Angell is under an illusion in imagining that there is any such radical difference between the two systems as would make the one a stronger safeguard of peace than the other. From the days of the Lombards there has always been in Europe international banking of a sort.

It has placed itself impartially at the service of war and of peace as occasion arose. It has financed traders, churches, and armies indifferently. It has made handsome profits out of them all, but if it were to be quite candid, it would admit that it had got more out of the armies than out of any of its other customers. Like Dogberry, it has had its losses in war as well as in peace, but its gains have far exceeded the losses. The balance is well on the right side.

If such be the past experience of military bankers, what reason has Mr Norman Angell for asserting that their position in relation to war has been completely reversed? that from being a very lucrative subject of international finance it has changed into a most unprofitable one—that, in short, war, like Shakespeare on the stage, now spells bankruptcy? The explanation Mr Angell offers is absurdly inadequate. The irresistible agents which, according to him, have effected this miraculous transformation are the telegraph, the telephone, and the Stock Exchange! Stranger still, the international banking system thus armed has not, as we might have inferred, become stronger: it has become weaker and more vulnerable, and the weakness of it is to be a special bulwark of future peace!

Whatever other arguments there may be for the new gospel of peace, its author has committed an obvious error in adopting as one of its fundamental postulates the increased and

increasing vulnerability of the modern banking system. Herr Bebel and the Socialist party are much nearer the mark when they denounce the growth of the "money power," meaning thereby the international banks and financial syndicates which are popularly supposed to control Sovereigns, Ministers, Legislatures, navies, armies, and the whole machinery of government.

Modern banking, far from having fallen a victim to its own excessive evolution and complexity, is more powerful to-day than it ever was in the world's history. It has less cause than it ever had before to fear wars or war panics. It is better equipped than it ever was before to finance a big war. So far as it is concerned, the chances of war have been rather increased than diminished. The telegraph, the telephone, and the Stock Exchange might with greater plausibility be said to have robbed war of some of its terrors than, Mr Angell can say the reverse. Plain indisputable proof of this has been unrolled before us day by day for the last six months. First Morocco, then Tripoli, then Portugal, and finally China played the game of the scaremongers, but without the slightest effect. Neither telegraph, telephone, nor Stock Exchange throbbed with horror over war bulletins. As for the banks, their only trouble was to find employment for their surplus funds.

The well-meaning people who are every now

and then discovering automatic antidotes to war have had nothing but disappointments and disillusionments. The Turkish-Italian campaign was an excellent object-lesson for them. It showed more clearly than was ever shown before how important a factor finance is going to be in modern war. It is not, as the millennialists assume, to be a preventive on which we may always rely. It may just as often be a stimulus to war by turning the scale on that side when it is trembling in the balance. It will always be a controller of military operations, for the obvious reason that these will be so costly as to demand almost unlimited use of credit.

The banks, as the chief creators of credit and the most active dealers in it, must therefore hold an important relation to all warlike operations on a large scale. In that connection very responsible duties devolve upon them, and an intelligent public will keep a vigilant watch on how they perform these duties. Briefly put, it is their special business when war breaks out to limit as far as possible the financial strains it may cause in a hundred different directions. Just as the diplomatists hasten to circumscribe as well as they can the circle of military operations, so the bankers—international bankers in particular—should hasten to limit and minimise their financial effects.

This responsibility rests on bankers all over

the world, for nowadays there is no country so remote from a possible field of war that it may hope to escape entirely from the storm. The wave of disturbance it sets up will spread to the farthest bounds of the commercial world. London, of course, is the place where it will be most keenly and persistently felt. The fact of London being the hub of the international money market renders that unavoidable. The further fact that it is the only free market for gold seals its responsibility. Whenever gold is urgently needed in any part of the globe, those who need it always know that if every other source should fail them they may come to London, and not merely beg for it but demand it.

The keepers of this free gold market do not attempt to maintain an immense gold reserve to satisfy the unforeseeable calls which may be made upon them. The Bank of England holds the smallest stock of the metal in proportion to its liabilities of any State bank in Europe. But, on the other hand, it enjoys the greatest facilities for replenishing its stock when dangerously depleted. Formerly the Bank rate was its chief and almost only weapon of defence, but the development of international banking has furnished it with others. In co-operation with the Clearing Banks it can exercise a certain amount of control over international credit operations. As no gold can be obtained from the Bank of

England without establishing a credit of some kind in London, strict supervision of such credits restrains subsequent demands for gold.

This is one of the latest and most valuable discoveries of modern banking. In 1911 it was put to a most interesting test by the Bank of England and the Clearing Banks—apparently with satisfactory results. The surprising calm which prevailed in Threadneedle Street and Lombard Street amid the crash of arms and the chaos of strikes and Bourse scares was mainly due to good banking. If London bankers had lost their heads, as many of their friends did in Paris and Berlin, we might have had a worse panic here than anything yet experienced. But they steered a safe and steady course under the most trying circumstances and amid dangers greater than the public ever suspected or than they may ever know.

Any one who has intelligently followed the progress of our London banks during the past decade will have remarked two great advances in their administration. One is a large expansion in their range of vision. Ten years ago they were all very insular, not to say parochial. Now they are all international. They have an eye on each of the principal money markets, in order to see what they are doing day by day. When they find them doing something, or trying to do something, which might be detrimental to the monetary situation here, they

can at once adopt preventive or precautionary measures. The other advance that has been made is in the direction of co-operation. To have the principal banks of the world working together instead of in the dark is of itself an immense gain, but in a crisis like the present it is a boon for banking and commerce at large.

The science of credit is being much more systematically and practically studied than ever before. This has produced a wholesome change in banking practice, the benefits of which will be seen in every strain on the money market. The cry of the old-fashioned banker for more gold to build up fresh credits upon has given way to the new policy of not allowing the credits afloat to outrun the possible demand for gold which they may occasion. In other words, credits are watched in the making, and not permitted to reach a point at which they might become a danger to the gold reserve of the Bank of England, and through it to the trade of the country.

It was this policy that enabled London bankers to face the most difficult monetary situation of the past twenty years with cool heads and firm nerves. Thanks to it, as well as to their broader outlook in international finance and their new-born habit of co-operation, their self-defensive power has been greatly increased. Striking proof of that is to be seen in the exceptionally strong

position which the Bank of England held all through the recent period of stress and disorganisation. While all the other principal State banks had to increase their loans—which means that they have had to manufacture more credit for the use of their customers—the Bank of England was looking ahead and taking in sail in good time.

In the autumn of 1911, when the war crisis began, the Bank of England was well prepared for it. Its loans were a million and a quarter sterling lower than they had been at the same date in 1910. Under these circumstances a proportionate reduction in the stock of gold would have seemed natural, but instead of that an additional four and a quarter millions had been acquired. This experience compared most favourably with that of the leading foreign banks during the same period. Between the end of September 1910 and the same date in 1911 the Bank of France lost fully eleven and a half millions sterling of gold, while it had to increase its loans by over seventeen millions. The Imperial Bank of Germany showed an increase of £5,670,000 in its loans and of £4,560,000 in its cash, but the latter may not have been all gold.

Austria-Hungary lent during the year 1911 seven and a half millions sterling more against an increase of only a quarter of a million in its cash. The Imperial Bank of Russia created

nearly twenty millions sterling of additional credits, against which it held at the end of the year only four and a half millions of increased reserve. Thus the Bank of England was of all the State banks in Europe best prepared to meet a possible war scare, but nothing of the kind actually happened. "The financial interdependence of the modern world" was not subjected to any abnormal disturbance.

SUMMARY OF CHAPTER XIV.

British politics in a state of discord and disunion dangerous to military strength. Examples of divided counsels—ecclesiastical, educational, political, fiscal, industrial, and commercial. The decision of momentous imperial issues hampered by parochial prejudices and jealousies. The United Kingdom has never in all its history been really united, and it is growing more disunited than ever. Multiplication of domestic troubles the worst possible preparation for international trouble. British history full of blunders in foreign policy and military strategy. Lord Morley on the short-sightedness with which great affairs are conducted. All our successful policies have been personal —Lord Chatham's, William Pitt's, Lord Beaconsfield's. Lord Cranbrook's diary of Cabinet meetings in 1879. Sir Bartle Frere and his South African policy vindicated. Modern States and high finance. Financial power of London and Berlin compared. Great Britain the only country where capitalists and financiers are treated as public enemies. Our excessive share of domestic discords and divided counsels.

MODERN WARS AND WAR TAXES

PART IV. ELEMENTS OF MILITARY WEAKNESS

CHAPTER XIV. DIVIDED COUNSELS

As sure as it is that a house divided against itself cannot stand, so sure is it that a nation or an empire divided against itself cannot stand. A certain latitude of free play for differences of opinion, of character, and of temperament is of course necessary in Commonwealths as in families. The dividing line where they cease to be healthy and become dangerous is hard to fix beforehand, but that in every case there is such a line is indisputable. Every nation has to find it out by careful study of its own circumstances and tendencies. When divisions are carried to excess the symptoms should not be difficult to discover, but it will be more difficult to appreciate their true significance.

In British politics at the present moment divisions and discords certainly override the

harmonies of public life. That they are being pushed across the line of national safety and efficiency may not be so readily admitted, but the question is at least ripe for discussion. If a cold-blooded catalogue could be made of the things which divide us, it would without doubt be longer than a corresponding catalogue of the things which unite us. As we begin to set them down they grow upon us at an alarming rate. To begin with politics, we have—

First, Established and unestablished churches —all more or less rivals and more or less competitors.

Second, Provided and unprovided schools under the greatest possible diversity of administrations, and working on an infinite variety of methods.

Third, An overwhelming chaos of religious and educational creeds which it has so far been found impossible to straighten out.

Fourth, A score or more of political parties and factions with diametrically opposed aims and objects.

Fifth, As many fiscal policies as there are days in the week, including Sundays. The two which dominate all the others—namely, free imports and tariff reform—have sworn war to the knife with each other. The most likely consequence is that neither of them will ever get a decided upper hand, and the fiscal system of the country will be all the time between two stools.

Sixth, A labour war in which Socialists, trade unionists, anarchists, and revolutionaries at large are all fighting for their own hands.

Seventh, A medley of foreign policies, ancient and modern, ranging from Quakerism to Jingoism, and from Cobden's non-intervention to Lord Palmerston's *Civis Romanus sum.*

Eighth, A maze of banking currency and financial problems which every one who understands them fears to touch lest the consequences should be the very opposite of what is desired and aimed at.

Ninth, Home Rule bogeys of innumerable brands—the Patrick Ford, the Devlin, the Redmond, the O'Brien, the Dunraven, and so on down to the Birrell, the most elusive and ghostly of them all.

Tenth, Anti-Home Rule bogeys of all colours, from deep orange to faded buff and blue.

Eleventh, Strong navy men who despise Little Englanders, and Little Englanders who rail at the strong navy men.

Twelfth, Territorialists and universal Serviceists, "blue water" schools, coast defence schools, and what Mr Winston Churchill has elegantly christened the "blue funk" school.

Thirteenth, Old and new gospels of national finance at deadly war with other. One sits in lonely state in Downing Street, while the other holds aloof in the City.

If all these stimulating but often impracticable

controversies could be fenced off from the regular business of life, and especially from the supreme questions of national safety, they might be pursued both with enjoyment and advantage. But when they foist all their prejudices into the daily business of the country, and prevent the most momentous decisions affecting its welfare from being calmly thought out and energetically executed, then they become a national peril. If they have not already reached that point with us they are steadily approaching it. The Army and Navy Estimates are studied in one place with a Church bias, in another with a Chapel bias. They are looked at from many different points of view which do not in the least degree concern them. Not one Parliamentary critic in a hundred treats them as questions of national defence pure and simple.

Labour members will vote steadily and consistently against any expenditure proposed by capitalist members. They will not even let the rich man spend his own money, though the real losers by their refusal are the workmen whom the expenditure would employ. The new Limehouse finance will do anything to show its independence of the City, while the City becomes more and more distrustful of Limehouse. Church and Chapel talk Christian love and practise ecclesiastical war. The Treasury and the taxpayer are beginning to regard each other as natural enemies. Instead of working together as they

have always done hitherto in critical times, they work against each other and drift farther and farther apart.

The United Kingdom of Great Britain and Ireland was never in all its history a really united kingdom. It was never less so perhaps than it is at present. It is now called upon to face issues of national life and death which ought to be faced as one man. But in no vital point is it so completely and heartily agreed as it ought to be in order to ensure for the policy it may adopt a fair chance of success.

It is surely absurd to talk of a policy where the word has almost ceased to have a meaning. Penal taxation, class wars, labour mutinies, Parliamentary salaries, and "ninepence for fourpence" all round are not policies. They are social and political upheavals which may leave the community worse off than it was before. A worse possible preparation for international trouble could not well be imagined. It dissipates at a frightful rate our moral, economic, and financial strength. It undertakes new and unknown responsibilities which we may not always be able to fulfil. It creates in millions of homes a dependence on the State, which the first blow in a British-European war would scatter to the winds, thus creating for ourselves new military dangers and difficulties.

There are, it is to be feared, a few more "great illusions" indulged in by the British

people than the one lately discovered by Mr Norman Angell. Among other extraordinary and groundless beliefs which they religiously cherish is the idea that they enjoy a consistent and continuous military policy. This fiction is almost two centuries old, yet it flourishes as vigorously as it did in the days of Marlborough and Lord Chatham. But most of the time it has been a mirage — a popular delusion. British history may be searched for generations back without finding any trace of either a military or a foreign policy which has been adhered to for five years on end. The minutes of Cabinet Councils, if they could be unsealed, would disclose much more diversity than harmony of opinion. Sometimes they would show personal jealousies and eccentricities carried to an absurd extent.

The more we learn of the inner history of Administrations, especially democratic Administrations, the more we feel inclined to echo Chancellor Oxenstiern's exclamation, "With how little wisdom the world is governed!" A still greater cynic than Chancellor Oxenstiern—Baron Brunnow, the Russian Minister in London previous to the Crimean War—put the same sentiment in more explicit language when he said, "If no one made any blunders there would be no politics." His Highness might with equal truth have added—and no diplomacy.

The Duke of Wellington is credited with the remark that the best general was the one who

made the fewest mistakes. Fully half a century ago Lord Beaconsfield, when still Mr Disraeli, brought this axiom to bear on the Foreign Office. In the debate on Lord Palmerston's Conspiracy Bill of 1858 he observed: "The House should remember that in ninety-nine cases out of a hundred, when there is a quarrel between two States, it is occasioned by some blunder of a Ministry." The Crimean War was too fresh in the memories of his audience for them to miss the application of the sarcasm. Lord Salisbury might not have ventured to say then, as he did many years after, that "in the Crimean War we had put our money on the wrong horse"; but that was Mr Disraeli's suggestion.

Even Mr Gladstone, though he was supposed to be gifted with an unusual degree of divine illumination, did not claim for statesmen and politicians much more than ordinary prescience. His biographer, Lord Morley, is equally modest. By way of extenuating some of his idol's failures in great national emergencies, he wrote: "The world would be astonished if it knew how often in the presence of great affairs men's sight proves short." In the crises of British history there has unfortunately been much more of this short-sightedness than of the consistent and continuous foreign policy which is paraded in House of Commons debates.

To go no farther back than the thrilling year 1878, when the peace of Europe rested on the

shoulders of a British Cabinet which was all at sixes and sevens within itself, where was our "consistent and continuous foreign policy" then? The incongruous spectacle of one set of politicians vituperating the Turks, while another set threatened the Russians with ironclads and Indian troops, was saved from ridicule by the courage of a single man—the Prime Minister of the day. Not for the first time either had such a thing happened in British history. Europe had been saved by an equally courageous decision of the Duke of Wellington when the Ministers who should have supported him to the last gasp threw on him the responsibility of returning from the Peninsula with his worn-out army or of holding on. He resolved, "God helping him," to hold on, and he had his reward five years later at Waterloo.

Another heroic foreign policy was that of the younger Pitt, but it was not a Cabinet policy or a Parliamentary policy, least of all a House of Commons policy. It was a one-man policy, like that of his illustrious father. The younger Pitt made superhuman efforts to avert a collision between the feudal Powers of Eastern Europe and the new forces of the French Revolution. Having failed in his peace policy, he spent the remainder of his strength in financing the war which he had striven hard to prevent. But for his war taxes, his war loans, his military subsidies to Continental allies, and his appeals to

the moral sense of Europe, the struggle would have broken down before it was well begun.

A more brilliant policy still was that of Lord Chatham. Single-handed it won Canada for the British Empire, and if the spirit it aroused in the nation had survived until that fateful year 1775, it might have saved our American colonies for us. This too was a one-man policy, the outcome of a single heart and brain. It was forced with indomitable courage through a House of Commons at first disunited and factious, but afterwards welded by Chatham's commanding genius into a compact body of enthusiastic supporters. This unique episode in British history has been thus vividly described by a contemporary writer—

When we reflect on the fertility of these islands, our industry, our internal wealth, and our numerous resources, we account in some measure for these great events in the way we deem natural. But these alone are not sufficient. We know that all these advantages would avail but little were it not for unanimity in council, vigilance and skill in directing, and the most consummate intrepidity in executing the affairs of war. . . . If we expect a continuance of success, and hope to reap any national advantages by our victories, we must show our virtue as a nation. Our fellow-subjects in America, as well as those in Asia and Africa, all share in the common blessings and have no less reason to join with the inhabitants of these islands. Never was this or perhaps any other nation more favoured in war than we have lately been. Even the Israelites of old when led by the hand of God—by signs and wonders and miraculous interpositions—do not appear to have

obtained so many and such great victories in one year with so little loss as have been granted to us in 1759.[1]

As a companion picture to the above contemporary appreciation of Lord Chatham's war policy, a parallel passage may be quoted from a distinguished strategist of our own time—one who died all too soon for his country's good. Colonel Henderson, in his 'Art of War,' draws a vivid portrait of the man for a war crisis. Be he soldier or statesman, these are the grand qualities he needs—

> In every human transaction the most fruitful cause of failure and of error is the imperfect comprehension or the neglect of principle. He who invariably sees the right course to be pursued is the man of ability endowed with that clearness of perception which may sometimes be a natural gift but is more often the result of sound training. He who follows that course, come what may, is the man of high character, of resolution, and of genius. If men fail to do what they ought to do it is more often than not because on their horizon the true principles of conduct do not stand out as beacon-lights above the mists of passion and all minor issues, for the one reason that the eye has not been trained to see them.[2]

In less than twenty years came the anti-climax to the heroic policy of Chatham. The Parliamentary dissensions, the military blunders,

[1] 'Appeal of the Society for the Encouragement of the British Army,' 1760.

[2] Colonel Henderson's 'Art of War,' vol. ii. p. 119.

and the national humiliations of the American Revolution were the natural fruit of the divided counsels which had taken the place of brilliant plans boldly executed. Throughout this period divided counsels continued in the ascendant, and they have since imperilled more than one military crisis.

From Chatham's time we have to go back almost half a century before we again encounter a real military policy—that of William the Third. Once more it was a personal policy, an almost single-handed battle for a historical cause. The part that the Whigs and Tories took in it did little more than neutralise each other. All through the seventeenth century, and back into the sixteenth, the personal element prevailed. Each of the Stuarts had a programme of his own—and wrecked it in his own way. It was one strong man with a personal policy that prevailed against them—Oliver Cromwell. His policy was more personal and unparliamentary than any of the others. It followed the sixteenth-century precedents of the Tudors—Henry the Eighth and Queen Elizabeth.

One of the clearest and most persistent lessons of British history is that, apart from commanding personalities, like Cromwell, Lord Chatham, Lord Palmerston, and Lord Beaconsfield, there has never been an outstanding military policy in this country. Far from being "consistent and continuous," it has been erratic, intermittent, and

accidental. Hardly ever did anything but shame and disaster result from the action of Cabinets and Parliaments at variance among themselves. Many such there have been, and there may be many more yet to come. What a pitiable exhibit they make with their squabbles, their bickerings, their cabals, and their petty intrigues!

Even the honest, conscientious, well-meaning Cabinets become objects of pity when we find them floundering in a crisis too great for them. The Memoirs of the late Lord Cranbrook offer startling glimpses of such Cabinet meetings. On the 9th April 1879 the following entry occurs in his lordship's diary:—

> I was off early for the Cabinet, where all but Richmond were assembled. We had France and South Africa, the *coup-d'état* in Egypt, Ottoman Bank Loan, Dufferin's report of proceedings on the mixed occupation, Aleko Pacha, &c., Malet on the imbecility of Turkey, Musurus Pacha's report of what never happened with Beaconsfield, and could not have happened, not to mention terms of treaty with Yakoob. However, we got through all, but with a team pulling each in a different direction, the best driving of our united Cabinet may be, probably will be, unavailing.

The above reference to "Frere and South Africa" recalls one of the most flagrant examples in recent times of our utter lack of a "consistent and continuous foreign policy"—including, of course, a colonial policy to match. Sixteen

years after Sir Bartle Frere had been sacrificed to Exeter Hall his life was published, and Lord Cranbrook, while reading it, referred to his diary and found the following remarkable entry. It shows the sort of treatment that a man with a statesmanlike policy may expect when he dares to offend social or religious susceptibilities. The foreign policy of Exeter Hall and the City Temple is often too powerful for the foreign policy of Downing Street, which is supposed to have a predominant voice among the nations.

I am reading Bartle Frere's Life, and came across in my diary a note of the Cabinet view of his schemes and of my own anticipations. I always felt with him as a really far-sighted statesman, and his African policy if fully adopted would have saved bloodshed, pacified vast regions, and prevented a scramble. . . . He may have made mistakes, but ours, I fear, was in not making allowance for South African conditions, of which we were ill informed. He knew them, and he had to accept foregone conclusions and deal with past acts which he could not overthrow. Much was imputed to him which had no real foundation.

The divisions which at the present juncture would be most prejudicial to our military efficiency in a European war are partly political and partly financial. Of the two, the financial divisions are the more serious, as in perilous times they will be less easily remedied than the political ones. In self-defence, politicians would then have to sink their differences and act together as they best could. But when a

Government has deliberately upset long-established beneficial connections; when it has alienated the finance houses to whom it must look in emergencies for special help; when it has attacked and vilified the propertied class on whom it depends for the best part of its fiscal income,—these are fatal blunders which cannot be corrected all in a moment.

In this matter great differences may be observed among the Military States of Europe. Some have had the wisdom to cultivate the most intimate and friendly relations with *haute finance*. Others have not had the necessary opportunities, or, if so, they have failed to appreciate and make the best of them. But few Governments have flouted capitalists as a class and acted towards them as if all they were good for was to be taxed. The British Government stands almost alone in its Ishmaelitish attitude towards the money market. German statesmen, following the wise lead given them by Prince Bismarck, have always kept in close touch not only with the leading banks of Berlin but with their provincial and European associates.

Although the resources of Berlin are small compared with those of London, bigger war loans have been raised there than could be obtained in London without excessive strain and dislocation. Berlin financiers have so much borrowing to do that they are always at it. They know every available hoard where money

can be got. They are continually tapping one or other of them, and when one dries up temporarily —as Paris did during the Morocco negotiations— they try another. Their latest exploit is to get short loans in New York to the tune of eighty or a hundred million dollars at 4½ per cent. Part of their object in thus cultivating the New York money market is to have financial connections well established and ready for use in time of war.

If we were to compare ourselves calmly and candidly with other nations in the matter of domestic discords, it will, I think, appear that we have more than an average share of them. In Germany there is only one great division that matters much — Socialists and anti-Socialists. Even the Socialists deny that they are unpatriotic, and in the event of war most of them would line up with the nation at large. In Great Britain we have not only the Socialist and anti-Socialist gulf of separation, but we have scores of other divisions, all tending to weaken both our foreign prestige and our military strength.

SUMMARY OF CHAPTER XV.

A stable and self-consistent military policy should be backed by stable and self-consistent financial measures. The latter demand an ample margin of taxable resources for emergencies. Are our national resources as inexhaustible as Lord Beaconsfield assumed them to be? The new finance runs directly counter to the old finance and to all its maxims and traditions. The Inland Revenue Commissioners on the failure of the Lloyd George land taxes. The historical prestige of the British Budget has been destroyed. National finance now a one-man monopoly. The violent fluctuations of the public income in recent years compared with its former steadiness. Limehouse finance becoming a danger to the Empire as well as to the nation. Robbing one class in order to give "ninepence for fourpence" to other classes is not a wise use of private property. Proletarian finance is being exploited to death while military finance is being utterly neglected. Mr Asquith's "large reservoir of possible taxation which has never yet been drawn upon" likely to prove a myth. Mr Winston Churchill's boast that "of all the States and nations of the world Great Britain will be found the best able to bear the strain" is flatly contradicted by the facts and figures presented in this book. In the event of war, the Chancellor of the Exchequer would be so overwhelmed by his proletarian side-shows that the financing of the war might suffer seriously.

MODERN WARS AND WAR TAXES

PART IV. ELEMENTS OF MILITARY WEAKNESS

CHAPTER XV. HAPHAZARD BUDGETEERING

From the indisputable thesis that the military policy of a Great Power should be stable and self-consistent, it follows that the financial measures by which the cost of it is to be provided should also be stable and self-consistent. They should be well matured to begin with, and should be faithfully adhered to afterwards. The Ministers in charge of them should thoroughly understand and appreciate them. They should be loyal to them and to the predecessors who, through long years it may be, have helped to elaborate and improve them.

In that way a stable, reliable financial policy can be built up,—a policy good either for peace or for war. Above all, it should leave an ample margin of taxable resources for the emergencies which so frequently occur in the history even of the most

fortunate and prosperous States. Until recently the British people have always been confident that they possessed such a margin. No one ever doubted or questioned it. On the contrary, it was an axiom at the Treasury and a proverb in the City. Mr Gladstone more than any one passionately adjured the House of Commons to preserve the income-tax as an emergency fund. Lord Beaconsfield made the inexhaustible resources of the country his justification for a bold, or, as his opponents called it, an adventurous foreign policy. But that was over thirty years ago, and many things have happened since then. "Inexhaustible resources" are, of course, relative, and depend not merely on their quantity but on the exhausting forces brought to bear against them. These may have meanwhile increased more than the resources themselves. Thirty years ago British supremacy was unchallenged and unchallengeable alike on the sea and in the workshop. In the interval more than one nation has made giant strides in industrial development. The United States has now a strong lead in economic resources and accumulated wealth. The German Empire hopes in a few years to be a good second. British pre-eminence is no longer what Lord Beaconsfield thought it.

Practically inexhaustible our resources no doubt were while prudently husbanded, but even they cannot for ever withstand the peri-

odical attacks of harum-scarum budgeteers. For half a dozen years or more our Finance Ministers have completely reversed the methods and run counter to all the best traditions of their predecessors. Their anxiety has been not to nurse the financial resources of the nation and maintain a steady level of taxation, but to invent new and strange taxes and discover fresh pretexts for laying heavier burdens on the taxpayers. Since 1909 an entirely new kind of budgeteering has come into vogue. It gives with one hand and takes away with the other.

Disdaining the old-fashioned idea of public finance—that it should be restricted to *bonâ fide* public expenditure—they wish to finance everybody. They are not to be happy until the entire democracy is salaried or pensioned or otherwise provided for out of the rates and taxes. Raising untold millions for these novel schemes of State benevolence has necessitated some remarkable budgets. Such a violent departure are they from the historical lines of British finance, that the old type is rapidly disappearing and a new one of quite a different complexion is taking its place. Sir Robert Peel, Mr Gladstone, and Sir Stafford Northcote are being completely overshadowed by harum-scarum schemes of so-called democratic finance.

Up to a certain point fate was unusually kind to the harum-scarum budgeteers, but now it appears to be turning against them. It cleared

the House of Lords out of their way, and gave them a free hand to work their will on the taxpayers. It obsessed the people in their favour, and induced them to accept as gospel all their rainbow promises and prophecies. Thrice they appealed to the country and obtained a popular majority for their democratic innovations. After such a run of luck they may well feel chagrined at the bad turn which their affairs have taken of late. In the throes of a diplomatic crisis involving two great European Powers, and of a military crisis involving the future control of the Mediterranean Sea, their new finance is breaking down not at one point only but at several.

The untapped sources of fiscal wealth which Mr Asquith promised to throw open to an electoral proletariat have refused to give forth their superabundance. The levelling-down taxes of 1909 with which Mr Lloyd George was going to capture millions a-year of unearned increment and unspeakable reversions, have so far been a very small mouse to emerge from so big a mountain. The annual report of the Inland Revenue Commissioners for the year 1909-10 brushes aside with a rude hand the golden dreams of Limehouse finance. We now know that it will take the fifteen hundred officials, who are drawing salaries of from £100 to £1200 a-year, nearly a quarter of a century to bring these heaven-born taxes into full operation. Meanwhile their annual

yields are so homœopathic that only in one instance do the Inland Revenue Commissioners venture to give the actual figures.

The undeveloped land duty produced in the first year the wonderful sum of £1162. The increment duty is described as "insignificant," and the assessments for reversion duty have so far been "extremely few." Evidently the year's receipts from these penal taxes, which were to clip the wings of imaginary millionaires and bring ground-landlords to book, will not be enough to pay the working expenses of a single week. What the Limehouse budgeteers have given us is not a scheme of new taxes useful for the public service, but a crowd of political pensioners, who will always be at the beck and call of their ministerial patrons.

Apart from the flagrant waste of money involved in it, this new departure is having two disastrous effects on our national finance. It has completely destroyed the credit and prestige previously enjoyed by the British budgets as such. All over the world they were admired as models of financial order and honesty. What they are now who will venture to say? The second disastrous effect is, that all pre-existing fiscal arrangements have been cavalierly brushed aside. There is no longer a single point connected with the budget which can be foreseen or prepared for beforehand. When it may be introduced, what its contents may be, how much time may be

allowed for its discussion, when it may be finally passed, — these are all matters subject to the caprice of the Finance Minister of the day.

Such a one-man monopoly of public finance is fatal to efficiency, even in the simplest affairs of a State. It is utterly incompatible with proper domestic administration, and still more so with financing to the best advantage the naval and military forces of a great Empire. Of all the branches of imperial government the army and navy are the last that should be left at the mercy of harum-scarum finance. But that such is their perilous position at the present time can hardly be questioned, even by political partisans of the Ministers responsible for it.

Not only the United Kingdom but the British Empire is at this moment destitute of a financial policy capable of bearing the strain of a serious military crisis such as we may any day find ourselves involved in. It is surrounded by war risks which, instead of anticipating and providing for, its rulers deliberately ignore. While war clouds hang over it, its financiers rush blindly on budgeteering for pensions, Parliamentary salaries, and universal doles.

As if to cap this topsy-turvy style of government, our Chancellor of the Exchequer has been devoting his whole time and energy to a Chinese puzzle of a State Insurance Bill, which threatens the country with a veritable nightmare of crude and irritating bureaucratic escapades. It might

better become him to think a little of the mess to which he is rapidly reducing the finances of the nation, together with the national credit and the many other imperial interests which depend on them. His most urgent duty is surely to endeavour at the earliest moment to undo some of the incalculable mischief he has perpetrated at the Treasury.

If Mr Lloyd George had done nothing worse than throw our budgetary system out of gear, and destroy the balance of our public finance, that would have been sin enough for any Chancellor of the Exchequer to commit. How grave an offence it is against orderly administration may be best shown by contrasting the steadiness of the nineteenth century budgets with the wild fluctuations we are now being treated to. As examples of the former we may take the decade from 1865 to 1874, which was pervaded by the spirit of Gladstonian finance. Though Mr Gladstone was not in office all the time, his spirit dominated the whole decade. Consequently not a single harum-scarum budget is to be found in it.

The annual revenues of this Gladstonian decade aggregated £725,325,000, and their annual average was therefore £72,532,500. The widest range of variation from the average was little more than four millions sterling. The lowest year was 1866, with a total revenue of £68,489,000, and even this produced the inevitable surplus. The expenditure

was only £66,592,000, leaving a balance of nearly a million and a half for reduction of debt. The highest year in the decade was £77,123,000—four and a half millions in excess of the average. But the expenditure was only £71,103,000, and the balance was Mr Gladstone's historical six million surplus.

It is laughable to recall that this prosperous and economical decade had also its war scares and its naval scares, though they were mere babies compared with what our naval alarmists can raise nowadays. It was then that Richard Cobden, the precursor of Norman Angell, fought his long duel with Lord Palmerston over our first ironclads, the Dreadnoughts of their day. But what a difference in the cost of the two! Subjoined are the annual revenues of the "peace, retrenchment, and reform" *régime* which began six years ago:—

THE ASQUITH-LLOYD GEORGE REVENUES, 1906-11.

1906-7	£130,052,000
1907-8	130,325,000
1908-9	125,550,000
1909-10	105,230,000
1910-11	175,164,000
	£666,321,000
Yearly average .	£133,264,200

Under the Asquith-Lloyd George *régime* £666,321,000 has been collected in taxes and

postal charges during the above five years, making an average of £133,264,200. Two years out of the five (1906-8) come pretty near the average, but the later three went miles astray in either direction. Mr Lloyd George's first year (1908-9) fell eight millions under the average, but that was a mere trifle to the flop which followed in the great anti-land and anti-beer year. Then it dropped nearly thirty millions below the average, and next year had to make up for it, as we have all reason to remember. In 1910-11 the revenue collections (including postal charges) shot up to 175 millions sterling, or 42 above the average of the five years. Such tax-gathering can hardly be called scientific.

The great difference between orderly budgets and the harum-scarum sort may be further illustrated by comparing the past five years of Lloyd George finance with the immediately preceding five, which were the last five years of Conservative finance. The revenues, fiscal and postal, of this quinquennium were—

CONSERVATIVE REVENUES, 1901-1906.

1901-2	£131,607,000
1902-3	139,700,000
1903-4	129,145,000
1904-5	130,342,000
1905-6	129,776,000
	£660,570,000
Annual average .	£132,114,000

Here is a rather strange thing in coincidences. The taxes and postal charges collected during the five years, which included the South African War, were actually six millions sterling less than Mr Asquith and Mr Lloyd George levied during their five years of peace and social reform. Query, if the new financiers can be such costly luxuries in a time of peace, what might they not be in a great war? The prospect is too awful to contemplate. A prolonged course of social reform finance *à la* Lloyd George would thus seem to be as bad for the taxpayers as a chronic state of war would be under a Unionist Administration. Whether the money goes in Dreadnoughts or in land-tax valuers and £400 a-year legislators may at present be a mere matter of sentiment, but emergencies are possible in which it would become a matter of national solvency.

Already harum-scarum budgeteering has brought us to a dangerous pass. Now that we find ourselves confronted with international questions, some of which may soon be beyond the range of academic diplomacy, while others are following fast in the same direction, old age pensions and State insurance schemes may no longer appear to be the acme of British statesmanship. Other and less agreeable questions may force themselves on the attention of the most peace-loving Cabinet. When that happens, and panic-stricken Ministers ask themselves what taxable margin they have kept in hand for mili-

tary eventualities, the answer cannot possibly be reassuring.

This is now more than a merely domestic question. It has become imperial both in magnitude and gravity. One might even go farther and call it an affair of world-wide interest. The eyes of the whole world have in truth been drawn to it by the incredible change which it exhibits in what used to be the envied ideal of national finance. It was not, however, settled by the Limehouse campaign, and the victory it then won at the polls cannot conceivably be final. Another and far more severe ordeal is now looming ahead of it. Limehouse budgeteering has failed miserably to give us peace and harmony at home. Can we hope that it will be of any greater help to the peace of Europe?

Thanks to Mr Asquith and Mr Lloyd George, we can no longer look down from altitudes of proud superiority on Central American financiers. We cannot even scorn the financial anarchy of Costa Rica while we ourselves are plunging about in equally stormy waters. Such comparisons may shock our self-esteem, but nothing is better qualified to bring home to us the dangerous breach that has been made in the historical principles of our national finance. The history of the budget of 1909, as we look back on it, reads like a wild escapade of financial vandals. There is no precedent for it in the rudest and most lawless period of our Parliamentary annals. If

Mr Asquith and Mr Lloyd George had tried to do in the reign of Charles the First what they have been doing of late, they would in all probability have shared the fate of Strafford. Hampden would have resisted their land-taxes and super-taxes as strongly as he refused the king his ship-money. As for Cromwell, he would have made short work of their "financial chaos."

In our future history the Limehouse campaign will read like an outbreak of demagogue fury against rank, property, capital, and private enterprise generally. Posterity may decide that its ruling motive was envy, and that its real object was to punish industry and intelligence for being better off than idleness and inefficiency. Such a financial gospel has never before been so openly preached and practised in any civilised country.

Worst evil of all, the problem of military finance is being utterly neglected by British Ministers and Parliamentarians. Not only so, but it is being rendered increasingly difficult by having other kinds of finance piled up in front of it. Every measure which tends to reduce our margin of taxable income diminishes in equal degree our prospect of acquiring a sound system of military finance. Old age pensions, state insurance schemes, and other social reforms may be commendable from a Samaritan point of view, but unfortunately we cannot spend the same income twice over. We cannot eat our cake

and have it. The taxation which is being applied to social reform permanently curtails the fiscal reserve from which all extraordinary expenditure has to be drawn. If more urgent needs should arise hereafter—the financing of an unavoidable war, for example—even a social reform Government may be forced to regret the millions a-year it spent on pensions, Parliamentary salaries, political jobs, municipal subsidies, State insurance, and socialistic schemes generally.

That there should always be a fiscal reserve dedicated to grave national emergencies has been a canon of British finance for more than a century. Sir Robert Peel said so, and Mr Gladstone echoed him but did not live up to it. All their successors down to our own day have handed on the tradition. Mr Asquith, when Chancellor of the Exchequer, accepted it and publicly pledged himself to its observance. In his last budget speech —that of 1908,—in foreshadowing his old age pension scheme and other social reforms, he said—

> I am not one of those who think that our free trade system of finance is bankrupt and has come to the end of its resources. There is a large reservoir of possible taxation which has never yet been drawn upon, or never drawn upon adequately and justly as it might be.

This, it will be noted, was an *ex cathedra* opinion delivered oracularly, without any proof or evidence, by a politician who, though he was at the Treasury for two or three years, has had

no experience of general finance. The few forecasts he ventured upon nearly all went far astray. His estimate of the annual cost of the old age pension scheme, for instance, hardly came within 50 per cent of the reality. Whether or not we have a large reservoir of possible taxation is very disputable. It is a question which even expert economists hesitate to commit themselves about. Some are emphatically of opinion that we are fast approaching the limit of our taxable capacity. Others may share Mr Asquith's optimist self-confidence, but the great majority of them advocate more thorough and systematic inquiry.

The belief that British resources are practically boundless was the corner-stone of Lord Beaconsfield's foreign policy. It is amusing now to see it parodied by successors who, if he had been still alive, would have opposed him tooth and nail. Mr Winston Churchill is, of course, among the optimists. His Lord Mayor's Day speech concluded with a financial tag worthy of Drury Lane. His final and crowning argument for the limitation of armaments was a boast that this country could stand the strain of competition better than most others.

> If [he said] the already vast programmes of other Powers for war upon the sea should be swollen by new and added expansions, that would be a matter of extreme regret to us and to other States; but I am bound to say, on behalf of his Majesty's Government,

that of all the States and nations of the world, Great Britain will be found the best able to bear the strain and the last to fail at the call of duty.

The reader will find in chapters iv. and v. a simple means of testing these boasts of his Majesty's Ministers. They will see, in the comparative statements therein given of the revenues and expenditures of the Military Powers, which of the eight is the most lightly taxed and has the largest command of non-tax revenue. Great Britain is not, as Mr Winston Churchill would have confidently predicted, at the head of the list, nor even second. It is the most heavily taxed, and has now the greatest variety of taxes to bear. Our fiscal system had begun to show signs of strain before the present Ministers took it over. They have, however, done nothing to relieve the strain; on the contrary, they have laid heavier and heavier burdens on the taxpayers, while at the same time they have multiplied and magnified the difficulties of administration.

If by any malign mischance we were plunged into war to-morrow, the Chancellor of the Exchequer would find himself and his department doubly overwhelmed with work: first, the proper legitimate business of the Department, which has hitherto been left to take care of itself; second, the social reform work, which is quite outside of civil administration. Act after Act has been

passed to make the Treasury not only a fiscal agency but a charity organisation society, an insurance company, and an employment bureau. With both hands full of extraneous duties, obligations, and responsibilities, how could any future Chancellor of the Exchequer, whoever he may be, take up the gigantic task of financing a European war, and grapple with it even as successfully as the least successful of his predecessors did?

Unhampered and undistracted as they were by non-fiscal cares and worries, they had more than enough to do raising war loans, levying war taxes, and supervising the enormous expenditures incidental to even a second-rate campaign. What will it be for an unfortunate Finance Minister saddled with Post-office Savings Banks, old age pensions, State insurance, and uncollectable land taxes, who has to provide funds for a great war in which all the armed forces of the Empire may be engaged?

SUMMARY OF CHAPTER XVI.

The various abuses to which credit is liable. The distinctive character of credit. Wherein it differs from realised wealth. South American "creations of credit" a euphonious name for loans. Financial "creations of credit." Market securities made up of varying proportions of real value and credit value. The banking fallacy that every banking obligation is, and can only be, an undertaking to pay so much money in golden sovereigns. The essence of banking is all-round credit, and the test of sound credit is that it keeps commercial and financial exchanges moving steadily. War crises and financial crises seldom coincide. Prince Bismarck's luck in making his wars when financial conditions were favourable. The year 1911 an unfavourable year for war owing to severe drought and high prices. These may have saved Germany from going farther than she did in her latest fit of Anglophobia. Bourse panics of small account as checks on war or warlike demonstrations. Invasion scares. Lord Overstone's alarmist prediction. French finance in the war of 1870. Interesting extracts from the City articles of 'The Times' during the first stage of the Franco-German War. Examples of the moderate declines that took place in stocks and the slight disturbance of the money market. Since 1870 French Rentes have made a far stronger recovery than Consols, and are now relatively higher.

MODERN WARS AND WAR TAXES

PART IV. ELEMENTS OF MILITARY WEAKNESS

CHAPTER XVI. THE ABUSE OF CREDIT

It has been difficult to find a title for this chapter which would be sufficiently comprehensive without ceasing to be distinctive. A great variety of financial and commercial evils have to be brought together and shown in their several relations to military finance. Unsound banking, an unhealthy money market, adverse foreign exchanges, excessive speculation in stocks, inflated commodity values, dear food and labour unrest, are all signs of what is here termed abuse of credit. They indicate a condition of economic disease and unfitness in the people generally. A nation going to war in such a condition would start so severely handicapped as to be unable to do itself justice.

The first step to take in investigating the above causes of military weakness is to grasp clearly

the idea that money, banking, international exchange, speculation, and the whole structure of paper values which we evolve out of a very small nucleus of solid wealth, are artificial creations. Some economists distinguish them as "conventional" wealth—that is, values created by agreement among the civilised nations of the world. Of necessity they have violent fluctuations. The holder of them may be a millionaire to-day and a beggar to-morrow. But while his paper values have trebled their market price or cut it in three, the world may go on pretty much as before. What made a man appear rich when his scrip was quoted on the market at 200 makes him seem poor when the quotation drops under 100.

South American Governments have a euphonious name for borrowing, which throws much needed light on the many differences between speculative and substantial wealth. They call loans "creations of credit," and so much faith have they in this easy way of paying their debts that they hand out bills as light-heartedly as Mr Digby Grant presented his creditors with "little cheques." Though we have not advanced so far as the Spanish Americans in "creating" credit and adapting it to every conceivable need, we do use it largely—much more largely, perhaps, than most of us suspect. Our trade, both home and foreign, is built up on it. Our banking, shipping, finance, and investment contain a small percentage of hard cash and a large percentage of credit.

Credit has been called an excellent servant but a very bad master. When it gets the upper hand of its creators it squeezes them unmercifully. The abuse of credit is therefore not only a sin against society but it is an act of suicide for the sinner himself. It is almost the only form of wrong-doing for which the wrong-doer has to bear his own punishment. Very seldom can he shift it on to another man's shoulders. But he can draw many other victims in with him. The abuse of credit has caused more suffering and misery in the world than either war or famine. It has been guilty of many crimes for which other people have been unjustly blamed. Among other things, war has been blamed for Bourse panics and disasters which were really due to the pre-existence of rotten markets. Where no rottenness pre-existed it has often been surprising how even speculative markets could withstand the shock of a sudden outbreak of war.

The creation of credit, though it has been carried on for centuries in all parts of the world, is still as obscure as magnetism or faith-healing. Unlimited skill and enterprise are brought to bear on the practical side of it, while the scientific side, with all its difficulties and complexities, is ignored. One clever financier after another comes along and strikes out a new line of credit extension. Then the creditmongers fancy themselves so much richer than they were before, and proceed to float a few more fresh schemes. Or if

they happen to be in a tight corner, as is too common with them nowadays, the new device gives them momentary relief. In their conservative moments they compare the credit systems to a pyramid standing on its apex, but how small the apex is compared with the pyramid is seldom realised.

Here, as in so many other economic difficulties, standards of comparison are sadly wanting. Neither our banking nor our commercial statistics furnish them, nor even the necessary materials for making them. Our only clue to them, and that a very imperfect one, is to be found in the official list of the London Stock Exchange. A liberal expenditure of time and labour in analysing it might produce a graduated scale of the relative degrees of credit on one side and actual cash on the other, which the listed securities represent. A sharp line cannot, of course, be drawn between the two different constituents. There is no security based entirely on credit, neither is there any consisting entirely of hard cash. The difference in all cases is one of degree. Securities vary in the proportion of cash and credit at their command; also in the degree of risk they involve of being called upon for cash. On the same principle investment and speculation differ from each other: first, in the relative command of cash behind them; next, in the quality of the credit by which the cash is supplemented; and lastly, in the risk of a final cash settlement having to be faced.

The pet axiom of the modern banker, and especially of the London banker, is that every obligation he undertakes is ultimately payable in golden sovereigns. This he repeats solemnly and persistently, with utter disregard of the fact that few bankers could, if suddenly called upon, pay more than a tenth part of their liabilities in golden sovereigns, while many could not pay more than 3 or 4 per cent of them. But if we view the liabilities of the country collectively the impossibility of cash liquidation will become obvious. The legal theory of the golden sovereign is beautiful, but any attempt to put it in practice would reduce business to a standstill. Credit obligations must always be liquidated mainly by counter credits.

The creation of securities is an operation of credit; they are kept alive by a continuous series of credit operations. When they can no longer maintain their credit they collapse, with greater or less loss to their owners. A curious but at bottom perfectly natural paradox renders the credit of those companies which are specially organised to promote credit operations the most sensitive of all. An industrial company may rub along with deficient capital and a dubious reputation, but to a bank credit is the breath of life. It is even more important to a bank than to a Government, because in the last resort a discredited Government can raise funds by *force*

majeure, while a bank that has lost its credit has lost everything,

The banking system of a country being the corner-stone of its commerce and finance, must at the same time be an essential part of its military strength. The extent of the financial effort that can be put forth in the first stage of a war must depend on the margin of free credit left for emergency operations. If Lombard Street, the Stock Exchange, the Baltic, and Mincing Lane have all been busy for months before manufacturing new securities; if they have been underwriting, speculating for a rise, booming, borrowing, and pawning all their marketable assets, they would be living on the brink of a volcano. It would be merely a question of weeks or months when the house of cards toppled over. A sudden declaration of war, like that of Italy against Turkey last October, might sweep away the boom like a soap-bubble. Even a rumour of war would prick the bubble badly.

Fortunately wars do not often break out at these dangerous and inconvenient times. Bellicose statesmen who know their business would never start a war alarm in the midst of a market boom. They would know that would be a very inauspicious beginning to make—that it would be bad not only for the markets but for themselves. Financing a campaign during a panic

would cost twice as much as it would at a normal time. Bismarck always began his wars either when money and stocks were easy or immediately after a bad collapse. His attack on Schleswig-Holstein was made while the stock markets were still prostrate under the shock of the American Civil War. In 1866 he launched the Prussian army at Austria a few months after the Overend & Gurney Black Friday. In 1870 he selected a period of perfect rest, political and financial, for challenging France to a decisive duel for the command of the Rhine and the leadership of Europe.

From the business point of view all Bismarck's wars were well timed, and the surprisingly small disturbance they caused to markets generally may have been partly due to that fact. It may be assumed that his successors in Wilhelmstrasse have learned this, as well as other important lessons, from him. If they have done so, there would be little danger of their rushing to arms over Morocco in such a year as 1911. Though the money and the stock markets were then fairly favourable for military operations, the German harvest had been very much the reverse. Pastures and gardens had been parched up as never before in living memory. Every requisite of an army commissariat was already up to record prices, and without any war the winter was hard enough to get through. A campaign under such conditions, with three-

quarters of a million men in the field on each side, would have been inconceivably costly. Nevertheless, not France and Germany only, but a third country in which we were even more interested, all found themselves unexpectedly on the brink of the precipice. Behind the diplomatic crisis a storm of national prejudice broke out, over which diplomatists had little or no control. Against the outburst of Anglophobia in Germany which surprised, not to say shocked, the Germans themselves, millennial platitudes were thrown away. Neither the cost of a great war, nor the financial and commercial disturbance it might cause, would have had a feather's weight in the scale of peace while that fit of Anglophobia lasted. And, unfortunately, we have small cause to hope that it was the last of its kind.

Such possibilities, however discreetly ignored, are always in the background. France has never relinquished her hope of recovering the "place in the sun" which was taken from her in 1870. Germany is confessedly not satisfied with what she captured in 1870. She yearns for still more sun and more empire. This yearning invests the details of diplomatic "conversations" about Morocco and Congo with an infinitely higher importance than their own. The visible pawns on the board are mere trifles compared with the invisible ones. Measured by the same standard, the risks of

Bourse panics following a declaration of war may have equally little weight.

Prince Bismarck would have been quite capable of saying in such a case, "Let money and stocks take care of themselves. If Bourse panics must come, let them come. They will not be the end of all things." This is another curious fact which the panicmongers entirely overlook. So far from a Bourse panic being the end of all things, it is more frequently the beginning of a healthier *régime* and of more genuine prosperity. It is not absolute and final, but only remedial and restorative destruction. To a successful belligerent who is fortunate enough to be able to keep his own territory inviolate, a temporary collapse of credit need not be a deadly matter. There have been more severe and prolonged paralyses of business due to pacific causes than to the deadliest war—that, for instance, which followed the Argentine crisis of 1890, and lasted fully five years. To the belligerent whose territory is invaded and his entire civil and commercial organisation placed under martial law, the temporary destruction of credit will of course be a more serious affair. But even in his case it can be alleviated to a much greater extent than those who have had no experience of it would think possible.

Even hard-headed London bankers have been known to view this question rather hysterically.

Half a century ago, when France was playing the bogey to us instead of Germany, we had many invasion scares. Royal Commissions were sometimes appointed to investigate them, and a crowd of City men helped to pile up the agony. The then distinguished banker, Lord Overstone, was an easy first in the thrilling competition. Among other harassing predictions he said—

> We may, however, be well assured that, under the most favourable supposition, the general confusion and ruin which the presence of a hostile army on British soil must produce will be such that it would be absolute madness on the part of the Government and people of the country were they to omit any possible measure of precaution, or to shrink from any present sacrifice by which the occurrence of such a catastrophe may be rendered impossible.
>
> The complicated and very delicate network of credit which overlies all the multitudinous transactions of the country would vibrate throughout upon the first touch of our soil by a foreign invader, and would in all probability be subject to a sudden and fearful collapse, while the confusion and distress produced among the labouring classes would be truly fearful. Millions of our labouring population depend for their daily maintenance upon the trading and manufacturing enterprise, the vital principle of which is the undisturbed state of public order, confidence, and credit.

Happily, Lord Overstone's prophetic accuracy has never been put to the test, but an analogous event has occurred which may be almost as instructive to us. London has never been invaded from Boulogne, but Paris itself has had experience

of the invader. Such are the ironies which history often plays off on scaremongers. It is due, however, to Paris to say that she came through the ordeal most creditably. But the chief if not the sole cause of this was that her finance was in a much better state than her politics. Had the Paris Bourse been as unstable and top-heavy as the Élysée, Lord Overstone's worst alarms might have been realised, not in his own country but in that of the dreaded invader.

Fortunately for France, credit was sound in 1870, and all the markets were in a normal condition. The success with which they struggled through the war itself, then the siege of Paris, and, bitterest cup of all, the Commune, is amazing to look back upon. The City article of 'The Times' in those days tells a dry, but, even in its dryness and baldness, a graphic story of a Bourse under siege. The trouble comes on very slowly and gradually, and the Germans were at the gates of Paris before the Bourse seemed to realise that it was in the throes of a historical crisis.

The City editor's first reference to the Hohenzollern affair is in 'The Times' of July 7, when he mentions that "foreign securities had been heavy on a succession of sales by brokers who usually act on French account. The stocks chiefly affected have been Italian, Peruvian, Egyptian, Spanish, Turkish, and Mexican." These stocks are said to have fallen ⅜ to 1½ on the day. Oddly enough, French Rentes held

their ground more firmly than the low-priced international stocks. Between July 1 and July 7 they lost only 2 francs (72.90 to 70.80). Consols at this date were about 92¾. On July 8 further falls are recorded, in consequence of the Duc de Gramont's declaration, in the Corps Legislatif, against the Hohenzollern candidature. This time British railways suffered worse than either Rentes or international stocks, but for a special reason, serious doubts having arisen as to the Brighton dividend then daily expected.

The scare continued to grow, though the declines were still only fractional. Cool-headed dealers bought freely on the time-honoured theory of Capel Court, that the apprehension of evil is always worse than the evil itself. On this point the City editor has some sensible reflections in the issue of July 9.

> The course of the market [he says] is a repetition of all recent experience, the results of the dread of events having invariably been greater than those from the events themselves. Thus, in the week before the declaration of the Crimean War, Consols touched 85½, and the average price throughout the four subsequent years of severe trial was 90⅝. Just before the commencement of the war of France against the Austrians, in Italy, the shares of the Lombard Venetian Railway, which was in no way seriously damaged by the contest, fell to as low a point as if the sole object of the respective armies had been the demolition of that undertaking.

On July 11 war seemed inevitable, and the panic came at last, but the worst of it was

soon over. In 'The Times' it was thus described—

A panic more serious than any in the Stock Exchange during the last sixteen years has been witnessed to-day. At one time the average further fall in securities, as shown in actual transactions, was at least 5 or 6 per cent, while there were many cases in which, if additional realisations had been forced, the reduction would have been much greater. Spanish, Italian, Turkish, and Egyptian being the stocks most dealt with in the French market, were of course principally affected, but the alarm was in a great measure indiscriminate, and United States bonds, Argentine descriptions totally unconnected with European complications, together with British railway stocks and the shares of joint-stock companies, even including such as would be likely to benefit by war, were all heavily borne down, and in some instances unsaleable.

That was a good specimen of a first-class war panic, and 'The Times' account of it is evidently lifelike, neither exaggerated nor embellished. It brings out clearly the fact that over-creation of credit had as much to do with the panic as the war had. Mr Lloyd George may be interested to hear how Consols behaved during this ordeal. The City editor says of them—

Consols which this day week were at 93, and which closed on Saturday at 92½-⅝, went during a short period to 91⅜—a price about 2 per cent below the average point at which they were maintained during the two years of the Indian Mutiny, and exactly the same as the average during the four equally anxious years of the American struggle.

In these days when Consols are a 2½ per cent stock at 77, it is consoling to be reminded that as a 3 per cent they went through the Crimean War at an average of 90⅝, through the Indian Mutiny at 93⅜, and through the American Civil War at 91⅜. It may be added that the equivalent of 2½ per cent at 77 would be 92 in a 3 per cent stock. Our national credit is thus to-day little more than one point above its Crimean War level, and is as much below its Indian Mutiny level.

So far there has been no special allusion to the Money Market proper. In 'The Times' of July 13 some curious information is given about it, not at all of a kind to suit the "Great Illusion" and its apostles.

> In the midst of the existing anxieties the Money Market remains wholly undisturbed, the demand for discount being light, and entire confidence being felt in the general soundness of our commercial position. Already the caution exerted has led to the calling in of balances due to this country from the Continent, and the immediate restriction of all kinds of speculative adventure must also operate to augment the future supply of unemployed capital. The existing accumulation of more than fifty millions sterling in the Bank of France will, of course, be subject to a double drain, since there was already a prospective demand upon it to meet the contingencies of a very deficient harvest. Prussia, at the same time, has large reserves of bullion which will also be drawn out by the struggle, and hence there is no prospect, even making full allowance for the pay and waste of armies, of any early diminution of the

currency available in Europe. In later stages of war the issue of unredeemable paper comes to inflate the supply, and thus it not unfrequently happens that, instead of money pressure, there is at such times more than ordinary abundance, and it is not until the return of peace that any real difficulty becomes apparent. A succession of large French loans must be looked for, and in view of them the present fall of Rentes can hardly be considered excessive. As a neutral nation we could have no subscription for them here, but the creation of new securities always facilitates those indirect borrowings which tend under all circumstances to the equal diffusion of capital throughout the world.

The obvious moral of these reflections on the state of the Money Market during this European crisis is that previously credit had been well self-guarded, that ample funds were available for current needs, and that when the war broke out the extra strain it threw on the Money Market was easily met. Consols and French Rentes were both at a high level, and enjoyed free markets. What would the British position be in these various respects if we had to face to-morrow a war like that of 1870? Looking back on the past ten years, and more particularly on the past five years, can we honestly say that the national credit has been as well safeguarded as it was then, or that it is as fit to bear the strain of war as it was then?

SUMMARY OF CHAPTER XVII.

Consols as the barometer of British national credit, and therefore an important factor in our military strength. Do our political rulers, Radical or Conservative, ever realise the political and military significance of a demoralised Consol market? The futility of the House of Commons as sole guardian of the national purse. The Cabinet has completely abdicated its authority over the Exchequer. Mr Lloyd George's elusive financial methods. Between a tabooed House of Lords and an impracticable House of Commons he is virtually irresponsible. His meaningless explanations of the fall in Consols. Savings bank failures and embarrassments through the unprecedented depreciation of their Government securities. What is required in Consols and gilt-edged stocks generally is steady average prices, neither too high nor too low. Consols were higher and steadier during the Boer War than they have been under the Lloyd George *régime*. Comparison of their ranges of fluctuation in 1889-1894, 1894-1899, and 1899-1902. Smaller decline in the three war years, 1899-1902, than in the three last peace years. Mr Asquith deprecates the writing down of securities "unless at comparatively long intervals." His mistaken prediction in 1907 that the fall in securities was over, and "we are recovering." The deficits of the Post Office Savings Banks and how they are being disguised. Growing danger of runs on Savings banks.

MODERN WARS AND WAR TAXES

PART IV. ELEMENTS OF MILITARY WEAKNESS

CHAPTER XVII. CONSOLS AT 77

DURING the latest of the crises which are being periodically "made in Germany" an eminent financier was asked what in his opinion was the most dangerous feature in the international situation. He promptly replied, "British Consols at 77. They are a standing menace to the peace of Europe." Very few British politicians, and least of all any member of the Asquith Cabinet, may have ever thought of Consols in that light, but it is the light in which they are now chiefly regarded in the City. The question has for weeks past been in every mind, if not on every lip, what bearing are Consols at 77 likely to have in the momentous issue between peace and war which has of late been trembling in the balance?

In the first place, what effect may they be expected to have on the world's estimate of our

military and financial strength? In the second place, what influence may they have on the value which friendly Powers set on a British alliance? Thirdly, what may they count for in the calculations of rivals and possible assailants? Astute anti-British statesmen have doubtless sized us up as factors in future eventualities, and it would be particularly interesting to learn how Consols at 77 figure in their summary of our fighting resources. Not very high, it is to be feared. If so, then the eminent financier above alluded to would be justified in regarding them as a menace to the peace of Europe.

The first-class wars of the future will have to be fought mainly with credit. Gold and all other material forms of wealth will go a very short way in them. They will have to be financed with promises to pay later on—drafts on an unknown and precarious future. Then woe to the belligerent who begins badly. His credit and his borrowing power will be apt to tumble headlong as that of France did after Sedan. To start on such a perilous venture with Consols at 77 might have damped the courage of William Pitt himself.

Have our political rulers, Radical or Conservative, ever given a moment's thought to the military and financial significance of Consols at 77? Have they ever asked themselves whether it is calculated to restrain or to stimulate the aggressive designs of Governments bent on having a front seat in the sun, somebody else's seat for

choice? To appeal from the Cabinet to the House of Commons would be still more vain. The louder that the popular Assembly asserts its exclusive jurisdiction over national finance, the more glaring becomes its incompetence for that high office. Having successfully asserted its claim to a monopoly of financial control, it must accept the accompanying responsibility. But so far it has shown as little appreciation of the responsibility as of the control itself.

The House of Commons lost no time in exhibiting to the wide world its rare qualification for the fiscal and financial functions of which it claims a monopoly. Since this modest claim was put forward and agreed to by a studiously courteous and polite Opposition, intelligible discussion of public finance has virtually disappeared. The annual Budget has become a nightmare of new taxes and fantastic expenditures. Budget debates have degenerated into a mockery of financial criticism. It is useless for any financier of the old school to say a word or even to ask a question of the new Oracle. He will only expose himself to a jeer or a snub from the Treasury Bench.

How little Ministers think of public finance is shown by their erratic and haphazard methods of dealing with it. Odd half hours are considered good enough for it, and even these are grudgingly given. In 1911 there was no proper Budget debate in the House of Commons, and in 1910 there was no proper Budget to discuss. The

Cabinet appears to have divested itself of its financial authority almost as completely as Parliament has done. Incredible as it would have sounded in the days of Peel or Gladstone, or even Goschen, the Finance Bill of 1911 was hung up in Committee until the last week of the session, and then it was rushed through at a single sitting. It had been coolly shunted to make way for the wild-cat revolutions to which not only Ireland but various other parts of the United Kingdom are about to be subjected.

Such a dispensation may be grateful and comforting to £400-a-year politicians, but it is not giving us either good legislation or sound finance. Moreover, it does not agree at all with Consols. They dwindle and decline under it as if a blight had fallen on them. They sink not only in market value but in credit and prestige, which is still more important. We have at last reached a crisis in Consols which, if not promptly and effectively handled, may soon pass beyond the control of Government and Parliament alike. But as yet neither Government nor Parliament seems to realise the gravity and magnitude of the issues involved in it. There has been no attempt to get to close quarters with it. The characteristic aim of the Chancellor of the Exchequer has been rather to shirk it and keep it at arm's-length. With his never-failing audacity and skill in verbal fencing he turns off awkward questions and nips in the bud inconvenient discussions.

Not Ministers only but independent members of Parliament have in recent discussions about Consols assumed that they are a mere commodity, like butter or cheese. They recognised in them none of the higher qualities which cannot be measured by commercial standards. The fact of their stability and free sale being essential to the safety of the nation did not seem to have ever occurred to them. Neither was it realised that they are more than ordinary securities, that they are the recognised barometer of our national credit, that they are largely employed as banking materials, and, most important of all, that huge amounts of the people's savings are locked up in them. No other security known to the Stock Exchange possesses these moral distinctions and responsibilities. They set Consols apart from all other stocks, shares, and commodities. The price movements of the latter affect their owners only, whereas the whole forty-five million souls in the United Kingdom are interested in Consols. People who never owned a pound's worth of them have a substantial stake in their market value.

We might go even farther and assert that the purchasing power of Consols is an Imperial question. From a military point of view they are as indispensable as Dreadnoughts and armed battalions. It is equally necessary that they be kept in the highest state of efficiency and readiness. The ultimate test of their efficiency is not the price at which ten or twenty thousand pounds

of stock could be sold in Capel Court, but what could be got for a new issue of fifty or a hundred millions if it had to be made suddenly for some grave occasion. No financial policy which fails to provide for that eventuality is worth wasting time over. But we not only have no such policy at the present day, we have not even the means of obtaining it.

There may have been previous crises in which the national credit was subjected to even worse strains than the present one, but they were never so wantonly challenged as they have been of late. Precautions were never so studiously neglected as they are now. False hopes and assurances were never so persistently preached as they are now in the highest quarters. There was never such a complete divorce as exists now between business and politics, between practical and theoretical finance, between the City and Westminster. The Consol market in its desolation and decay is the most striking symbol of that divorce.

How can we expect our national securities to regain their former status until a united effort is made in Parliament and in the City to remove the causes which are depressing them? Most of these are perfectly obvious if we would only look them straight in the face without political bias or preconception. The most obvious of all is that a political clique has been permitted to arrogate to itself the entire supervision of public finance. It has neither the time, nor the temper,

nor the training which such a task requires; but, dog-in-the-manger-like, it will allow no one else to touch the work which it cannot do itself. The House of Lords contains far more financial skill and experience than the House of Commons, but it has been permanently warned off. It could furnish a select committee—half a dozen of them if necessary—which in a short time could throw valuable light on the present plight of Consols, but rather than accept any such assistance Mr Lloyd George would see Consols down to seventy, or even lower.

From a tabooed House of Lords and an impracticable House of Commons Consols have little to hope for. The only other quarter from which relief can come is public discussion. The Press, the Chambers of Commerce, and the financial organisations of the country may, amongst them, do a good deal to protect the national credit from further degeneration. But their intervention in order to be effective will need to be prompt and energetic. There is no time to waste in arguing with Mr Lloyd George as to the rate at which Consols are falling, how fast they fell under Unionist and Radical Administrations, what set of official politicians are most to blame for their decline, and so on and so on. That is all red-herring recrimination, or it may be dust thrown in the eyes of too zealous investigators.

The thing to see and to keep our eyes fixed upon is that Consols are in a bad plight, and that

all the glib talk of the Chancellor of the Exchequer does not make them any better. Year by year they have been going out of favour and their market has been shrinking. Private investors are deserting them. Trustees are selling instead of buying them. Banks are growing tired of losing money on them. Savings banks and provident institutions can no longer afford to hold them in view of the drastic "writing down" they require. One considerable bank has had to give up the hopeless struggle, and another has had to obtain the assistance of the Bank of England to enable it to reorganise itself on a new basis.

While Consols go down Mr Lloyd George explains away every fresh slump to the complete satisfaction of his admirers. It is always the same explanation—a kaleidoscope of figures to prove that the other Government stocks are falling quite as fast as Consols, a glorification of the Sinking Fund which, under his miraculous care, is reducing the national debt at the rate of twelve millions sterling per annum, and winding up with a prediction that the finest fiscal policy in the world is bound to pull us through some day. Unfortunately that prophecy has been so often repeated in the past five years and as often falsified, that its influence on the Consol market has sunk to zero.

The futile comparisons in which Mr Lloyd George delights have been blown to the winds by disasters like the failure of the Birkbeck Bank.

Instinctively that mishap was attributed to the source from which so much financial trouble of other kinds had proceeded. "Lloyd George finance" was the explanation which spontaneously rose to every lip. It was openly alleged within the bank itself, and it appeared in the Press on the authority of bank officials. So universal was its acceptance that Mr Lloyd George took alarm and went out of his way to get an official contradiction of it from the chief accountant of the bank.

The gist of this explanation was that the Boer War and the Colonial Stock Act of 1900 authorising trustee investments in colonial securities had caused all the trouble. Mr Lloyd George having solemnly read this to the House, added that he had himself checked the quotations of the various stocks and found that "they all show a larger depreciation from a date shortly before the outbreak of the Boer War to the end of the lifetime of the late Unionist Government than since the initiation of what is called Lloyd George finance." Had he given us plain dates instead of these two paraphrases the absurdity of such a comparison would have been patent. His "shortly before the outbreak of the Boer War" must mean about the middle of 1899, and the late Unionist Government retired at the end of 1905. The Unionist period of depreciation measures, therefore, fully six years. In his own case he has given us the exact birthday of the "Lloyd George

finance." It was April 20, 1909, little more than two years ago.

The first peculiarity of his comparison between Unionist and "Lloyd George" depreciation is that a period of six years is set against one a third of that length. The second peculiarity is that the Unionist period included a long and costly war, while his own two years were, as he often reminds us, years of peace and plenty. Even if the Unionist depreciation were, as he claims, greater than his own, the difference in conditions would render any comparison of their security values irrational. A simple statement of what the Unionist Government had to do in its three war years, but what Mr Lloyd George did not have to do—what he possibly could not have done—in his two peace years, would cover his argument with ridicule.

Bald comparisons of prices at different dates without reference to the accompanying conditions is mere jugglery. Still more useless is it to compare extreme or abnormal prices, such as the very high figure which Consols reached in 1896 and the very low figure at which they stand to-day. The proper starting-point for rational comparisons is the average of a series of normal years. Any Chancellor of the Exchequer who can keep Consols near that normal average will be doing his duty by them. But he will not care to see them either much above or much below his standard level. The last

normal period that Consols enjoyed was the six years immediately succeeding the adoption of Lord Goschen's conversion scheme in 1888. The subjoined list of their highest and lowest prices in these six years exhibits unusual steadiness and solidity—conditions which have been conspicuously lacking of late:—

HIGHEST AND LOWEST PRICES OF CONSOLS, 1889-1894.

	Highest.	Lowest.	Range.
1889	99⅜	96½	2⅞
1890	98¾	93⅜	5⅜
1891	97½	94⅜	3⅛
1892	98¼	95¼	3
1893	99⅝	97	2⅝
1894	103⅝	98⅜	5¼

The year 1894 was not an absolutely normal year, as it will be seen that a considerable rise took place then. This was the beginning of the Consol boom which culminated in the dangerous inflation of 1896. In that year Consols marked 114, but no one in the slightest degree acquainted with their history mistook this for a natural price. It was artificially created by the after-effects of two world-wide crises—that of 1890 in London and of 1893 in New York. These shocks to international credit caused a great shrinkage in trade and in the creation of new securities. Capitalists and investors alike were puzzled what to do with their money. Many of them, instead of sitting on it until the turn of the wheel came, forced it into gilt-edged

securities at any price. They fancied that a perpetual reign of cheap money had set in, and two per cent Consols began to be predicted.

The first sign of this glut appeared, as shown in the above table, in 1894. Its high-water mark was reached in 1896, and when the Boer War began in 1899 a recoil of several points had already taken place. On October 30, 1899, Consols were down to 104—ten points below high-water mark—but they were still four or five points above the average of the normal period, 1889-1893. The most simple, and likewise the most just, view to take of the Consol position at this time is to assume that its centre of gravity was par. In ordinary circumstances it would vary only a point or two from that level. Lord Goschen's own anticipation in 1888 was that the new two-and-a-half per cents would command nearly as much as the two-and-three-quarters per cents had been doing in the previous three or four years. In 1886-1888 they had been up to 103¾ and down to 95½, making a fair average of 100.

In comparing the price movements of the past twenty years, we should start from 1888 as a datum line. If we do that, we at once put out of court the abnormal prices of 1894-1899. Two-and-a-half per cent Consols at par were Lord Goschen's ideal, and we should be thankful indeed to get back to it. With the warning example of 1896 and 1897 before it, the Consol

market wishes for no return of the 112 and 114 boom. It would be well satisfied to make a fresh start at the correct datum line—not 114 but par. Any one doing so in a fair spirit will see that the Boer War was most creditably and successfully financed. The war loans issued not only realised relatively high prices, but they had wonderfully little depressing effect on Consols. These are the special tests of war finance, and Mr Lloyd George may well ask himself if he could hope to repeat to-day the financial operations which Sir Michael Hicks-Beach achieved during the Boer War.

For a Chancellor of the Exchequer the Consol problem is not their market price at a given date, but the strain they will bear when called upon. In the strong hands of Sir Michael Hicks-Beach they came safely through a very severe ordeal during the Boer War. As already said, when the war broke out they had declined from their high-water mark of 114 to 104. A few months later (March 1900) the first war loan was issued—namely, the national war loan of £30,000,000. It was offered in 2¾ per cent stock at 98½, and was handsomely subscribed. A year later (April 1901) £60,000,000 of Consols were issued at 94½. In 1902, towards the close of the war, the third and final issue was made —£32,000,000 at 93½.

Apart from the national war loan and several large issues of Treasury Bills, £92,000,000 of

new Consols were put on the market within two years. Far from crushing it, as one-half of the amount would probably do now, these issues left it firm and healthy at 95½. The decline which took place during the three years' war was actually smaller than what had occurred during the preceding three years of peace—

		Decline.
1896-1899 (peace years) . .	114 to 104	10
1899-1902 (war years) . .	104 to 95½	8½

If we compare the price of Consols at the close of the war with the average of the above six normal years (1889-1894), we shall find a depreciation of only three or four points. Another two or three points were lost between the close of the Boer War and the end of the Unionist *régime* in 1905. Surely not a bad financial record this, as far as Consols are concerned and the maintenance of the national credit.

If the chief accountant of the Birkbeck Bank had been correct in attributing its failure to the Boer War and the Colonial Stock Act of 1900, why was the fatal depreciation of the bank's securities not discovered much sooner? Why was it delayed until the mischief done was beyond repair? Is the inference not unavoidable that the securities cannot have been properly written down from year to year as the depreciation proceeded? And is there

not reason to fear that the laxity of the Birkbeck Bank in this respect has not been exceptional among institutions of its class? May there not be other savings banks and provident societies dealing in gilt-edged securities which have also shirked the painful process of writing down?

This last is a very serious question, as it involves not merely the solvency of individual institutions but the safety of the system as a whole. If Consols and other British funds have permanently ceased to be suitable investments for the savings of the people, then the institutions which have been using them for that purpose must either find more productive investments or quit business. The future of savings banks, public as well as private, is at stake, and the amount of money involved is now close on 230 millions sterling.

That laxity has prevailed cannot be doubted, neither can it be wondered at when we recall how it has been not merely winked at but actually encouraged in high places. No less an authority than the Prime Minister himself can be quoted by the savings banks and friendly societies against the frequent valuation of securities. At the present juncture Mr Asquith may not like to be reminded of an unfortunate speech which he made in July 1907 at the opening of the new offices of the United Kingdom Temperance and General Provident Institution. His

admirers may not relish it either, and one passage in it may give them a bit of a shock, but in the public interest it is worth recalling. After reading some impressive figures as to the invested funds of the life insurance companies of the United Kingdom, he thus commented on them :—

Here you have these enormous investments, and naturally you are as much interested as anybody else in the country in the channels into which these investments run, and perhaps still more in the return which is made from them. I do not know whether any of you have recently been engaged in the somewhat gloomy process of "writing down" [laughter], *a practice which I think is very much to be deprecated unless it is taken at comparatively long intervals and with a full consideration not only of the past and the present, but of the probabilities and prospects of the future.* A great deal of nonsense has been talked, and still more nonsense has been written, in the course of the last twelve months, on the supposed depreciation of our national credit. Any one who takes the trouble to make himself acquainted with the comparative figures in these matters will know that whatever depreciation or fall of price there had been in our premier national security has been more than equalled by the fall of the corresponding securities in other countries; and to put it down, as some short-sighted writers have done, to some special instability in our social or economic conditions, is not only to ignore the facts which are well within the reach of those who take the trouble to seek for the truth, but is entirely to misread the governing factors of the situation. The truth is that while there have been circumstances, some of them catastrophic and others highly abnormal, which account to some extent for the fall

that has recently taken place, *I am glad to think that we are now recovering. But the fact is that the fall has been largely due to the activity and prosperity of our own trade.*

We may take it for granted that that speech of Mr Asquith in July 1907, when he was Chancellor of the Exchequer, was read with delight by the directors and officials of all the savings banks, provident institutions, and benefit societies in the United Kingdom. Every trustee for deposits invested in Consols or other British funds who had been worrying over the serious depreciation of his investments would hail with pleasure Mr Asquith's opinion that the "somewhat gloomy process" of writing down securities was very much to be deprecated. They would not only agree with him most cheerfully, but it may be feared that they proceeded to act on his advice and have been acting on it ever since.

The Chancellor of the Exchequer may denounce it as a base slander to say, or even to think, that "Lloyd George finance" brought the Birkbeck Bank to grief, but what of the Prime Minister? Is he equally innocent and irresponsible? Was it not inevitable that his jibe at the "somewhat gloomy process" of writing down securities would be taken in earnest and acted upon wherever the results of "writing down" were likely to be unpleasant? Were not savings bank managers and other trustholders of Consols entitled to accept the assurance that

"we are now recovering"? The obvious allusion was, of course, to Consols—"the premier national security," as Mr Asquith poetised it—and the inference of every plain reader would be that in 1907 Mr Asquith was sure they had touched bottom.

Alas for him and for the Birkbeck Bank, and for crowds of unknown victims, he happened to be quite wrong. Consols had not yet finished falling. In July 1907 they were about 83, and they went on falling until they reached 76½. It will be remembered that the Boer War left them at 95½ after £92,000,000 of new stock had been successfully floated within two years. Mr Asquith, in July 1907, must have satisfied himself that the effects of the Boer War were exhausted, otherwise how could he have been "glad to think that we are now recovering"? In his opinion at least the subsequent fall from 95½ to 76½ can have had nothing to do with the Boer War.

Fully four years ago the Prime Minister—then Chancellor of the Exchequer—assured us that the depreciation of Consols had come to an end. From that date he assumed all responsibility for them. So certain was he of their speedy recovery that "writing down" was to be no more needed. It was, in fact, to be deprecated as a sign of want of confidence in the new dispensation. Four years later we find, as a natural sequel to this ostrich-like optimism, that Consols have been seriously, and perhaps permanently,

discredited as banking investments. The class of bank which has hitherto depended chiefly on Consols and kindred securities for its income can no longer rely on them. It is confronted with the dilemma that it must either exchange Consols for more remunerative securities or give up taking deposits. In other words, what may be called "Consol banking" has run aground.

The Post Office Savings Banks have long ceased to make any pretence of solvency. Their annual deficits have to be made good by the taxpayers, who are not even told what they amount to. I doubt if Mr Gladstone himself would have allowed these annual deficits to pile up indefinitely. He would either have made the banks self-supporting at the expense of the depositors or have abandoned them. One of his chief objects in establishing them—namely, his wish to render the Treasury independent of the City—had been given up long before he died. At the same time, the philanthropic and provident side of the scheme had proved disappointing. The mass of deposits collected and concentrated in the hands of the National Debt Commissioners gave more trouble to the Government than the service they rendered to the public was worth.

It is curious to read at this time of day Mr Gladstone's own account of his real reason for creating the Post Office Savings Banks. It was not philanthropic, neither was it in the interest of good banking. As the following

memorandum shows, Mr Gladstone wanted it as a new weapon with which to fight "the money power in the City," which would not always let him have all his own way:—

> The Government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned. In the conditions of that situation I was reluctant to acquiesce, and I began to fight against it by financial self-assertion from the first, though it was only by the establishment of the Post Office Savings Banks and their great progressive development that the Finance Minister has been provided with an instrument sufficiently powerful to make him independent of the Bank and the City power when he has occasion for sums in seven figures.[1]

The "poor man's money" which Mr Gladstone thus light-heartedly borrowed for his own convenience has become the dearest part of our national debt. The nominal 2½ per cent paid for it was only part of its cost to the State. For half a century or more annual deficits have been accumulating against it. In 1880 Mr Gladstone himself estimated that the deficiency on the Trustee Savings Banks alone exceeded three and a half millions. He arranged to wipe that out by means of terminable annuities to run for twenty-eight years. At the end of the twenty-eight years—namely, in 1908—the annuities had to be extended for another ten years, so that we are still paying them.

[1] Morley's 'Life of Gladstone,' vol. i. p. 651.

In 1907 a member of the House of Commons called Mr Asquith's attention to the savings bank deficits, and asked what he proposed to do about them. Mr MacNeill, the questioner, calculated that the Post Office Savings Bank itself was about £10,000,000 short, and that a proportionate shortage would be found in the Trustee Savings Banks. But Mr Asquith was, as usual, all for *laissez faire*. The annual deficiency, he said, was on the decline, and if it were left alone it would wipe itself out.

The climax of the savings bank fiasco is again due to Consols. Owing to their prolonged and persistent decline a dangerous depreciation has taken place in the capital value of the principal savings bank investment. If the situation was as bad as Mr MacNeill represented it to be in 1907, it must be much worse now. The Prime Minister, with all his faith in *laissez faire*, can hardly pretend now that the annual deficiency is gradually disappearing. It must, on the contrary, be rapidly growing, and as Consols continue to decline it will grow more and more rapidly. If Mr Asquith sees in the present price of Consols no ground for alarm as to the future of our national credit, he might at least take pity on savings bank depositors, and try to avert the scare which will seize them one day if safeguards are not speedily provided.

A further disclosure has been made lately of recent changes in our Savings Bank securities

not at all to their advantage. The trustees are having Irish land stock dumped on them in preference to Consols,—a still more unsaleable security, and therefore a more unsuitable investment for them. Nevertheless, on March 31, 1911, the Trustee Savings Banks had 7¾ millions sterling of it and the Post Office Savings Banks nearly 25 millions (£24,748,583). They did not acquire this Irish land stock of their own choice, but simply because the public did not like it and would not have it. Each successive issue of it was less favourably received, and a larger share had to be dumped on public departments.

The Post Office and the Trustee Savings Banks have been the most abused victims of the Irish dump, especially of Mr Birrell's new 3 per cents. On that unique investment they have already lost about 8 per cent. The price they had to pay for it when issued was 92½, and it is now down to 84½ — another warning against "the gloomy process of writing down" which Mr Asquith thinks is so greatly to be deprecated.

Consols at 76½ and the Post Office Savings Banks chock-full of Irish land stock, which in the event of a run on them might have to be sold at a loss of 10 or 15 per cent,—these are the latest achievements of Limehouse finance in the City. To speak of a crisis in Consols is to put the case very mildly. We might have truthfully described

it as a double crisis — one in Consols and the other in our savings banks. How long is a great commercial nation to allow its credit, its public funds, and the savings of its people to be thus made the plaything of party politics?

SUMMARY OF CHAPTER XVIII.

How the banks have hitherto been the best supporters of the public funds, and consequently of national credit. For their common good the closest and most friendly relations should always exist between the banking institutions of a country and its national securities. These relations are gradually disappearing in the City. Disastrous effects of the depreciation of British funds on banking securities, and especially on the Savings Banks. The decadence of the Consol market. Foolish official juggling with the serious fall in Consols. The enormous amounts of Consols and Irish Land stocks held by Government Departments. Grave responsibility of the Government to Savings Bank depositors. How a possible run on the Savings Banks at the commencement of a great war might hamper military operations. Why have the large Sinking Fund purchases of the past six years failed to sustain the price of Consols? While the Savings Banks are being loaded down with Government stocks the regular banks are shifting into more popular and marketable securities. The large transactions which the banks formerly made in Consols are gradually disappearing. The reckless multiplication of State obligations and liabilities is creating irregular and dangerous additions to the public debt.

MODERN WARS AND WAR TAXES

PART IV. ELEMENTS OF MILITARY WEAKNESS

CHAPTER XVIII. THE DISORGANISATION OF BANKING SECURITIES

As a factor in military finance Consols have various aspects. One is the market view as indicated in the variations of price. Another is the investor's and stockholder's view. There may be many different opinions about a stock even when it is known to be absolutely safe. For other reasons it may or may not be popular. Then there is the banker's view of Consols—in several respects the most important of all. Without the cordial and continuous support of the banks, private and joint-stock, the Consol market could never have become what it is, or rather what it used to be in its healthy days. They were as invaluable to it as the Government broker himself, and it is an ominous fact that they are being gradually forced out of it.

Savings banks have been driven out of business one after the other by the ruinous depreciation of what were formerly considered the only proper banking securities. Concurrently the joint-stock banks are cutting heavy losses in the same class of securities and changing into more suitable investments. Both these movements are obviously bad for the Consol market, bad for the national credit, and bad for all branches of national finance, civil as well as military. They have produced two weak links in the monetary system on which the solvency of the nation depends,—a system which cannot afford to have weak links at any time, and least of all at a time of military stress.

For their common good the closest and most friendly relations should always exist between the banking institutions of a nation and the national securities. Such relations have always existed between them in this country when the public finances were in responsible hands. That they have of late suffered a grievous interruption is a deplorable fact. At present people think only of the losses which the banks—especially the savings banks—have suffered through the demoralisation of Consols, but in due time it will appear that the greatest sufferer has been the public credit. It has lost, and is still losing, some of its strongest, steadiest, and most reliable bulwarks.

The whole position of the National Debt is

disquieting, and some of the Ministerial ingenuity which is turning the country topsy-turvey might very well be diverted to it. Hitherto it has been left very much to the official experts. Chancellors of the Exchequer experiment upon it—invent new sinking funds, cut them down, and put them up again, as the humour seizes them. One after the other boasts of the amount of debt they pay off, and compare themselves proudly with their predecessors as debt extinguishers. But the public seem to be none the wiser for it all. Unionists and Radicals each believe what their respective leaders choose to tell them about it, and independent opinion is entirely lacking.

Even in the City there is very little practical discussion of this most muddled and ill-treated of national questions. Though it underlies all the secondary financial issues which are now being so hotly agitated, their dependence on it is as yet very scantily recognised. Nevertheless, they must all get down to it in the end. Every disputed point in our latter-day politics is more or less connected with finance, and the governing factor of our finance is the National Debt. Budgets, armaments, investments, savings banks, and many other vital elements in the organisation of the United Kingdom, affect the National Debt and are in turn affected by it.

Abnormal depreciation in the securities which represent the National Debt has recently caused trouble among a certain class of banks. The

stoppage of the Birkbeck Bank spread dismay among thousands of depositors, and shook the confidence of saving and thrifty people generally. Latterly, the depreciation in gilt-edged stocks has been such as to excite alarm even among people not usually timid or nervous. Year by year it has been confidently asserted that it had touched bottom and was on the turn. Every member of the present Government, from the Prime Minister downward, has assured us that it was only a temporary aberration of the market which would soon right itself, and we have waited patiently for these official prophecies to fulfil themselves. But so far without effect.

If we could persuade ourselves to go on trusting these predictions in the teeth of so many non-fulfilments, the crisis might be kept off for a year or two longer, but with Consols at 77 more than Ministerial speeches and statistics will be needed to dispel the growing mistrust. Happily, the public are not entirely at the mercy of the Cabinet. Any one who has the slightest acquaintance with public finance may get the necessary materials together and examine them thoroughly for himself. Then he can form his own judgment, and act on it, either in the Consol market or the House of Commons. The essential question is, What are the advantages and disadvantages of the National Debt as a banking security? Depending on the answer to that there is a further question, How far the balance

of these advantages and disadvantages has changed in the past few years?

If we invite the opinions of professional dealers in Consols, their answer will be decidedly pessimistic. It will assert that not only the stock itself but the entire market for it has retrograded: that it has shrunk in volume of business, in the number of holdings, and in freedom of dealing. From being the freest, quickest, and safest market in the world, it has degenerated into the narrowest, most difficult, and least popular. The general aspect of the market often justifies that melancholy verdict. It is thinning down in the most discouraging way. For days together it is wellnigh deserted, and when at long intervals a spurt of activity takes place, it is generally a selling and seldom a buying movement.

So persistent has the pessimistic spirit become that not a single Mark Tapley is to be found in the gilt-edged division. They have all changed into Jeremiahs, and, when certain prominent politicians are mentioned, they can outdo any Hebrew prophet in damnatory vigour and volubility. Of the Stock Exchange as a whole it may be said that not a single member retains the unquestioning faith in Consols which was universal a few years ago. But this loss of faith is as yet for the most part purely negative. It has not reached the stage of intelligent criticism, but when it does the National Debt and its recent

management will be subjected to some drastic strictures. The radiant pictures of it, presented occasionally to the House of Commons, have little likeness to the hard, cold reflections of them seen in the City.

At Westminster, the popular idea, carefully fostered by every succeeding Chancellor of the Exchequer, is that the National Debt is being rapidly reduced by sensational surpluses and heroic sinking funds. That is the refrain of all Mr Lloyd George's answers to Parliamentary inquiries. But the inquirers themselves never seem to see how illogical such replies really are. As an explanation of the persistent decline in Consols they are *primâ facie* absurd. The natural effect on a stock of large purchases for a sinking fund, or any other mode of redemption, would be to reduce the total amount in the market and raise the price proportionately. But Consols do not advance on buying for the Sinking Fund. They steadily fall, and thus produce the opposite effect to what buying should do.

The crux of the Consol problem is, why should the National Debt thus steadily depreciate when so many special efforts are being made to strengthen it and hold it up? Can there be anything unsound in its present condition or in its management? If there is, it is the City bankers and financiers who ought to find it out and bring it to the notice of the Government. No Minister, not even the Chancellor of the

Exchequer, and no Treasury official, however skilful he may be at his own work, can be expected to diagnose a disease the chief symptoms of which are in Capel Court. In order to discover what is wrong with the National Debt, it must be examined from the Capel Court, in other words the Stock Exchange, point of view.

Looked at from this standpoint, its most obvious trouble is the great complexity which has of late years invaded the Consol market. "The sweet simplicity of the Three per cents" is a thing of the past. It has been swallowed up in a medley of "Goschens," Local Loans, three varieties of Irish Land Stock, Annuities, permanent and terminable, Exchequer Bonds, Treasury Bills, and Deficiency Advances. These, moreover, are only the direct liabilities of the British Government. Outside of them is an almost equally large group of indirect liabilities, varying in amount from a million or two up to the thirty millions of Transvaal Threes.

When Ministerial apologists for Consols dilate on the depreciating influence of the widened circle of trustee stocks, they go farther afield than they need to for explanation. Far more damaging competitors with Consols than any of the new trustee stocks, or all of them put together, are to be found in the Consol group itself. Every Chancellor of the Exchequer in recent years has tried some new experiment in borrowing for permanent or temporary needs.

New forms of National Debt have been created, and each of these has had a certain amount of competitive effect on the older forms, especially on the chief form, Consols. The premier security has had one sucker after another tacked on to it, until now, like the classical old lady who lived in a shoe, she has so many children she does not know what to do. Not one of these affiliations has been any help to her. They have all without exception tended to aggravate her difficulties and spoil her market.

Let our bank managers and banking experts follow up this clue and they will soon learn more about the real causes of the decadence of Consols than they could from a century of partisan talk about trustee investments and the Boer War. The moment that they begin an impartial, unbiassed examination of the question the truth will "jump to their eyes" that the Consol market is being choked by an exuberant growth of hybrid stocks, which claim not merely affinity but equality with Consols. Irish Land Stocks, for instance, Local Loans, Transvaal Threes, were all intended by their political creators to be "as good as Consols," but they never, in fact, have been. Instead of Consols raising them they have dragged down Consols.

It only now begins to be realised how much Consols have suffered from this superfluity of second cousins. Like many another Crœsus, they are being weighed down by poor relations, and

find when it is too late that there is no escape from them. Nearly one-third of the National Debt is not in Consols, but in one or other of a dozen affiliated stocks which have no real public behind them. Some of them are held almost entirely by Government Departments, and this is another confusing element in the National Debt situation. The British Government is by far and away the largest holder of its own stocks. Its present holdings, according to the official returns of March 31, 1911, compare as follows with the total amounts of the respective issues:—

BRITISH FUNDS HELD BY GOVERNMENT DEPARTMENTS, MARCH 31, 1911.

I. ACTUAL AMOUNTS.

	Inscribed in Bank of England.	Inscribed in Bank of Ireland.	Total.
	£	£	£
Goschens . . .	155,943,334	4,638,120	160,581,454
2¾ per cent Annuities	1,500,633	1,156	1,501,789
2½ per cent Annuities	14,802,996	3,641	14,806,637
Local Loans . .	36,348,904	174,013	36,522,917
Irish Land Stock, 2¾ per cent, 1891 .	...	9,694,500	9,694,500
Irish Land Stock, 2¾ per cent, 1903 .	26,667,505	3,461,465	30,128,970
Irish Land Stock, 3 per cent, 1909 . .	1,668,048	307,413	1,975,461
Terminable Annuities, £1,967,735 . .	19,727,997[1]	...	19,727,997[1]
Exchequer Bonds and Treasury Bills .	16,037,100	...	16,037,100
	272,696,517	18,280,308	290,976,825

[1] Capital value.

II. Proportions of Total Funds.

	Total Funds.	Government Departments.	Balance held by Public.
	£	£	£
Goschens . . .	562,642,692	160,581,454	402,061,238
2⅔ per cent Annuities	3,884,266	1,507,789	2,376,477
2½ per cent Annuities	30,142,365	14,806,637	15,335,728
Local Loans . .	71,058,813	36,522,914	34,535,899
Irish Land Stock, 2¾ per cent, 1891. .	10,842,320	9,694,500	1,147,820
Irish Land Stock, 2¾ per cent, 1903. .	50,517,279	30,128,970	20,388,309
Irish Land Stock, 3 per cent, 1909 .	4,404,455	1,975,461	2,428,994
Terminable Annuities	34,417,265[1]	19,727,997[1]	14,689,268
Exchequer Bonds and Treasury Bills .	40,500,000	16,037,100	24,462,900
	808,409,455	290,982,822	517,426,633
Other Capital Liabilities. . . .	47,840,151	...	...

[1] Capital value.

It may surprise most people, and not a few bankers as well, to learn that of the whole 808 millions sterling of National Debt only 517 millions is actually in the market. The other 291 millions is held, in large or small accounts, by various Public Departments. The bearing of this strange fact on the stability of the debt has never been seriously studied. Whether it is good or bad, whether it makes for solidity or the reverse, is a moot question. We commend it to the attention of our banking readers as a matter of great professional and scientific consequence for them. Evidently they have not thought much

about it hitherto, except as regards one familiar detail which has excited them considerably. This, of course, is the Postal Savings Banks.

These banks have been strongly and properly criticised for their open violation of the fundamental principle of sound banking, the lack of an adequate gold reserve—a condition of things which would not be tolerated in any other banking institution. They are operated without share capital, without any guarantee fund, and without any margin, other than the general claim on the national resources, to cover ordinary business risks. The possibility of a run on them, or of a serious depreciation of their securities, has not been thought of. They live entirely by faith in Providence and the Consolidated Fund. On this intangible basis they have piled up liabilities which now exceed 175 millions sterling. Including those of the Trustee Savings Banks, the grand total is nearly 228 millions.

This is a banking position so anomalous, not to say perilous, that the fact of its having been tolerated so long amazes every regular banker who gets to close quarters with it. It is bad business and bad finance as well as bad banking. Neither is it good for the National Debt. It has created a class of indirect holders who do not know that they are holders, who regard their Consols as money and at any moment can claim repayment in cash. How difficult it would be

to liquidate the assets may be seen from the subjoined summary of them:—

BRITISH FUNDS BELONGING TO SAVINGS BANKS, MARCH 31, 1911.

Consols	£96,249,484
Annuities, 2¾ per cent	1,410,825
Annuities, 2½ per cent	11,411,189
Local Loans, 3 per cent	34,466,654
Irish Land Stock, 2¾ per cent, 1891	7,454,237
Irish Land Stock, 2¾ per cent, 1903	23,485,418
Irish Land Stock, 2¾ per cent, 1909	1,636,059
Terminable Annuities £1,967,595 (capital value)	19,727,997
Exchequer Bonds and Treasury Bills	5,558,610
	£201,400,473

It would have been bad enough to have had the whole £201,000,000 in Consols, but £32,000,000 in Irish Land Stocks is a much harder nut to crack. The market for all three issues is of a most limited character. If it were otherwise, such blocks of them would not have had to be dumped on the Savings Banks. Of the 1891 issue which, as the second of the foregoing tables shows, now amounts to £10,842,000, the Savings Banks have got £7,454,000, or about 75 per cent. Of the £50,517,000 issued under the Act of 1903 they have been saddled with £23,485,000, or nearly one-half. Of the £4,404,000 of Mr Birrell's 1909 brand they are carrying £1,636,000, or nearly 40 per cent.

Lumping the whole of the Irish Land Stocks together, we find that there is now over £60,000,000 of it, and the Savings Banks are loaded with no less than £32,000,000. That is not a healthy position either for the Savings Banks or for the Irish Land Stock. Still less healthy is it from a banking point of view. After what has happened to a number of private Savings Banks a run on the Post Office Savings Banks is no longer so inconceivable as it used to be. A prudent manager would deal with it as a possibility, and settle in his own mind how he would meet it if it were to happen. It is obvious in this case that such a risk has never been seriously considered, either by the Savings Bank trustees or the Post Office authorities, or the Treasury or the Chancellor of the Exchequer.

In the event of a run a very small portion of the 200 millions sterling of assets would be immediately realisable at the market prices of the day. The £96,000,000 of Consols and the £11,000,000 of 2½ per cent annuities might be sold at a moderate sacrifice, though it would take weeks to do it. The £34,000,000 of Local Loans Stock would have to undergo a forced sale, seeing that it would about double the amount already in the hands of the public. The £32,000,000 of Irish Land Stock could not be disposed of anyhow or anywhere at a fair price. The terminable annuities, with a capital value of close on £20,000,000, are an exotic security

chiefly used for Treasury purposes. They are a favourite device with Chancellors of the Exchequer for making the reduction of the National Debt appear greater than it really is. The public demand for them is decidedly limited.

This is an aspect of the National Debt which should now more than ever be pressed on the attention of the Government. It offers much more scope for the ingenious casuistry of the Chancellor of the Exchequer than his comparisons and explanations of market movements, the real significance of which he has evidently failed to grasp. It is doubtful if he has much confidence in these explanations himself, for after a round of them he invariably falls back on Mr Asquith's trump card—the reduction of debt. He proudly announced on one occasion that "from April 1, 1906, to March 31, 1911, there was a net redemption of debt amounting to £55,918,000, as compared with a net increase in the previous five years of £85,056,000." This he held to be the highest and best financial policy in the circumstances. The only remedy he had to propose for the depreciation of gilt-edged securities was a continuance of that policy.

In his reply to Mr Fell, Mr Lloyd George said: "As regards remedial measures, I am advised that, so far as State action is concerned, the most important are the maintenance of adequate provision for the redemption of debt and the avoidance as far as possible of new borrowing." But this

sovereign remedy to which we are asked to trust implicitly for the future has, according to Mr Lloyd George's own statement, been already in operation for five years. It has notoriously failed to maintain the market value of Consols and the national credit involved therein. Its failure is the cause of the present uneasiness and alarm. Ignoring, or it may be not seeing, that self-contradiction, Mr Lloyd George still asserts that the only remedy is the one which he has been practising for years without any visible success!

If paying off the public debt at the rate of twelve millions a-year is, as Mr Lloyd George assures us, the best possible tonic for Consols when they fall sick, why has his £55,918,000 of debt redemption since 1906 had so little effect on them? Consols have kept on falling all the time, in spite of Government purchases averaging twelve millions sterling per annum. How much more might they not have fallen had there been no Government broker in the market anxiously watching its spasms of weakness and buying half a million of stock now and then to prevent a collapse? No argument of his critics, and no question they could put to him, was half so damaging to the Chancellor of the Exchequer as his own fatuous boast about the £55,918,000 of debt redeemed. It was an unconscious aggravation of the charge he pretended to answer.

If we are to go on redeeming public debt at the rate of twelve millions sterling a-year, and Consols

are, nevertheless, to continue falling as they have done in the past five years, we shall be wasting our labour so far as the maintenance of the national credit is concerned. We may be doing even worse than that. Such a fruitless reduction of National Debt may be bad business as well as bad finance. Large debtors, when they liquidate existing obligations, generally make sure that they will not have to re-borrow at a higher rate. The directors of an industrial company would be poor financiers if they were in a hurry to pay off 4 per cent mortgages and next year had to take on fresh mortgages at 5 per cent. That is a risk which every Chancellor of the Exchequer should keep in view, but, apparently, it never for a moment troubles Mr Lloyd George.

It may be that the Sinking Fund operations, which he regards as the perfection of financial policy, will ultimately intensify the crisis in Consols instead of relieving it. Suppose that within the next two or three years an emergency were to arise in which it became necessary to raise, say, sixty millions. That would be rather more than the sum of the past five years' purchases for the Sinking Fund. Could it be raised at a lower rate than had been paid for the £55,918,000 purchased and cancelled? Most assuredly not. The £53,918,000 redeemed between April 1, 1906, and March 31, 1911, will have cost on an average 85. In 1906 over 88 had been paid for it, in 1907 the average fell

to 84, but in 1908 it rose again to 86, and in 1909 it was still about 83. Thus 85 would be a fair mean price for the five years.

Think now what the probable result of a new sixty-million loan would be under present conditions. It could not be covered with certainty at a higher figure than 76 or 77, and the expenses of issue would reduce that to 74. In replacing the £55,918,000 recently redeemed there would thus be a net loss of over 10 points, or about £6,000,000. Would such an operation be likely to enhance either the value of Consols or the national credit?

Sinking funds have been a stumbling-block to Chancellors of the Exchequer ever since they were invented; but Mr Lloyd George out-Herods all his predecessors, including even Mr Asquith, in his pathetic faith in them. Regardless of the teachings of our own financial history, he treats as a special and all-sufficient safeguard of national credit what has quite as often proved a delusion and a snare. Some by no means insignificant authorities question the utility of sinking funds altogether, but all—with the apparent exceptions of Mr Asquith and Mr Lloyd George—are agreed that when overdone they may easily cost more than they are worth. To adopt them as a sheet-anchor would be courting heavy loss and disaster.

The casual and by no means enlightening

references that are made in the House of Commons to the National Debt do not indicate much appreciation in that quarter of its vulnerable points. These are not the low prices to which Consols and other British funds have fallen. Neither are they the competition of more remunerative securities, or the diversion of British capital into other fields of investment. The weakest of them all is the concentration of the debt in comparatively few hands. That Government departments should be the largest holders of British funds is of itself sufficient to condemn the system and to justify a demand for inquiry. That this questionable form of holding is on the increase—is, in fact, the only kind of increase observable—aggravates its danger.

Another disquieting thing which cannot have escaped the notice of our readers is that while the amount of the National Debt that is being dumped on the Savings Banks is continually increasing, the regular banks are all reducing their share of the burden. It can be confidently affirmed that none of our great joint-stock banks is carrying as many Consols as it did ten years ago. After their sad experience of writing down they would be more, or less, than human if they did. Only one or two very large holdings remain, and the largest will not exceed five millions. The rest shade off from three or four millions to under a million. Part of the proceeds of Consols

sold out may, however, have been put into other British funds, notably into Exchequer Bonds and Treasury Bills.

These have the special merit, which bankers begin to appreciate much more than they used to do, of having definite maturities: in other words, they are payable at par on fixed dates. When a banker puts money in them he knows that in the worst case he will get back his capital within a certain time. But Consols are simply annuities, and not even the best kind of annuities. They are altogether one-sided, for while the Government may pay them off after certain dates the annuitant can never claim repayment. If he wants to recover his capital he must take what he can get for it in the open market.

One of the many suggestions which have been made for the rehabilitation of Consols is that this defect should be at once remedied by making them redeemable at par at a fixed date. This would doubtless have a bracing effect on them. Even if the redemption period were to be made as remote as thirty or forty years it would give them a sharp fillip. Any gilt-edged stock which had to be redeemed at par forty years hence would have no excuse even in these ugly times for grovelling below 80. Bankers, however, are not sanguine about obtaining any reforms of that sort under the present *régime*. They are too practical and prosaic for electioneering rainbow-chasers. What they cannot get with Consols

they therefore look for elsewhere, and they find it in Exchequer Bonds, Treasury Bills, and short-dated loans of various kinds.

So far as the banks are concerned, the best thing that could be done for the National Debt would be to convert the whole of it into terminable debentures. Any new issue would certainly have to be made of that type in order to give it a chance at all in Lombard Street. The further that Consols depreciate the more important this consideration will become. While they were most of the time over par, and seldom more than a point or two under it, no one ever troubled about their being irredeemable annuities, but at 77 that becomes a serious drawback. When, on the one hand, a holder sees no limit to possible depreciation, and on the other no prospect of redemption, however remote, he realises that his bargain with the Government is too one-sided.

Another effect of the slump in Consols which has told particularly on bankers is that large dealings are no longer safe in so narrow a market. When the market was free, and lines of half a million stock could be sold right away, the clearing banks did not merely hold large quantities with an easy conscience, but they often dealt in them. At certain seasons of the year, when deposits were accumulating faster than they could be used, instead of lending large sums from day to day at nominal rates, a million or two would be put in Consols. At another season, when the

demand for loans exceeded the inflow of deposits, half a million or a million of Consols would be sold to meet it. The chances were generally in favour of a small profit on the transaction, but nowadays there would be a moral certainty of heavy loss. We need not wonder, then, if all that sort of business has completely vanished. In February and August large sales of Consols were regularly made to provide for the railway dividends, and these, too, have disappeared. Such transactions kept up a healthy ebb and flow of business in the Consol market, and as they decline it becomes more and more like a stagnant pool. The springs which fed it and kept it sweet and fresh are being cut off one after the other.

If Mr Lloyd George could have his eyes opened to this gravest side of the Consol crisis, he would realise the futility of the official explanations with which he amuses a bored and weary House of Commons. All his comparisons between the fall in Consols and the fall in other gilt-edged stocks are mere music-hall patter compared with the real facts. And his sovereign remedy—his boasted eleven millions a-year of debt reduction—is as a fleabite to an elephant. When his Chancellorship of the Exchequer comes under historical review it will be found that instead of reducing the National Debt, as he claims, by nearly 56 millions sterling in the past five years, he has enormously increased it. His old age pensions and his contributions to promiscuous life insur-

ance are new Consols under other names. They are annuities just the same as Consols are, only more vague and indeterminate, and consequently more risky for the State.

The £13,000,000 now being paid in old age annuities, if capitalised at only ten years' purchase, will represent an additional £130,000,000 of National Debt, The £14,000,000 a-year, which is the latest estimate for State insurance, will be moderately capitalised at twenty years' purchase, and that means £280,000,000 of new debt. This £410,000,000 of new liabilities has for the most part gone to the same class who furnish the Savings Bank depositors. Toward them the Government has undertaken obligations aggregating no less than 600 millions sterling. Not a penny of that huge total could be defaulted on without consequences in which financial panic would be a small and insignificant item. It would upset the trade of the country, cause widespread suffering, and possibly end in a popular revolt.

Contrast this state of affairs with the corresponding situation in Germany. There the savings of the people are invested not in Government debt but in Government railways. Instead of earning only 2½ per cent they yield annual returns of 4 and 5 per cent. Instead of the Government having millions of small creditors, who can call for their money at any moment, or who come for their annuities in weekly doles, it has a large

industrial revenue steadily flowing in, and this revenue is more than sufficient to meet all its debt charges.

State obligations and liabilities are being heaped up in the United Kingdom faster and more recklessly than in any other country. Call them old age pensions, insurance premiums, or whatever you please, they are as much additions to the National Debt as a new issue of Consols would be. *Per contra*, the State has little or no earning power of its own to set against them. Apart from the Post Office it has no trading income, and, with the exception of its Suez Canal shares, it has no investments. Everything it spends or gives away has to come out of the taxes. All the future promises it so lavishly makes will have to be fulfilled by the taxpayers. In every direction the industrial resources of the country are being mortgaged and handicapped.

What we call the National Debt is only one of our many direct and indirect liabilities. It is the multiplication of these new liabilities, rather than the competition of other securities, that weighs down Consols and British funds generally. They not only compete with the old debt, but they lower its credit. Irish Land Stock has been the greatest offender in this respect. It was never popular to begin with, and the dread of its being poured out in an endless stream made both dealers and investors fight shy of it. When people talk and write about popularising Consols they forget that

Consols are not the only British Government stock that is much in need of popularising. The entire Consol group is in an unsatisfactory condition, and the question is, Who are the proper persons to appeal to for a remedy? Obviously, it is not the Government, and still less the House of Commons. If any public body is equal to the herculean task it is the London bankers. Therefore to them I appeal. The condition of the National Debt concerns them specially, and they ought to be best qualified to deal with it. As for the House of Commons, the more it talks about public finance the thicker a fog it seems to get into. What the Consol market most urgently needs is to be saved from the electioneering Samaritans who are inflating the National Debt by every conceivable device and have no suspicion of the mischief they are doing.

SUMMARY OF CHAPTER XIX.

Great Britain has no settled scheme of military finance. Every new war is financed in a different way. Pitt's war loan policy as distinguished from Gladstone's war taxes. Finance the only effective limit of future wars. The crucial question regarding them will be not how many men or how many Dreadnoughts the belligerents can oppose to each other, but how much money they can raise. The borrowing and taxing power of nations is nowadays the final test of their military strength. The new policy of military concentration: armies of picked men and fleets of the most powerful fighting ships. The impossible cost of mobilising the whole available strength of nations in arms. Alleged precautions to be taken by the German Government against financial disturbances likely to follow a declaration of war. The closing of all the savings banks. The cost of recent first-class wars and their financial effects. The next great war might have to begin with a fifty or even a hundred million war loan. The first batch of war taxes might include an extra sixpence of income-tax, an addition of 50 per cent to the death duties, house duty, stamps, and other property taxes. The "consumption" taxes (tea, sugar, tobacco, wines, spirits, &c.) might also be raised 50 per cent. The minimum income-tax line might be reduced from £160 to £100 a-year. Official salaries might have to undergo drastic reductions. The grants in aid to local authorities would have to be cut down ruthlessly. And even then an extra war revenue of more than fifty millions a-year would be doubtful. Possible suspension of specie payments as a smaller evil than raising large loans at ruinous discounts. In actual war the supreme consideration for the community itself will be food and raw materials for the maintenance of the national industries. We should have to be prepared for a war expenditure of a million sterling per day, war taxes of a million sterling per week, and war loans running up to three hundred millions sterling.

MODERN WARS AND WAR TAXES

PART V. WAR FINANCE OF THE FUTURE

CHAPTER XIX. WHAT OUR NEXT GREAT WAR MAY COST

It might have been thought that a nation which has gone through so many wars, big and little, as we British people have done, would have very definite ideas as to their cost. By this time we ought to have developed a scientific system of war finance.

But the last thing we think of is being scientific. We prefer to "muddle through," and in this respect our war finance has always been on a par with our military strategy. Every war we have blundered into has been financed more or less at haphazard. War loans, war taxes, and war measures of every kind have been improvised for the occasion.

No two of our many wars have any financial feature in common. Every Chancellor of the Exchequer who has had a war budget to produce

has approached it from his own point of view, and has applied to it the financial doctrines which happened to be in vogue at the time. Pitt had perforce to do most of his fighting with borrowed money. He could not have raised a fourth of his expenditure by taxation. Mr Gladstone rushed to the opposite extreme, and set up the super-moral theory that wars should be paid for as far as possible out of revenue. Their successors have wavered between the two extremes, and the proportions of loans and taxes raised for war purposes have varied greatly.

That long chain of contradictory precedents offers little or no guidance to a present-day Chancellor of the Exchequer.

The proper financial question to ask about the next great war is not how much it will cost, but how much the belligerents will be able to raise for it? They might spend indefinitely and *ad infinitum* if they could get the money, but, fortunately, there will be limits to their financial resources. There are no definite limits to the number of men who could be put in the field, or the number of war-ships that could be sent to sea in some shape or another. Neither are there limits to the quantity of powder and shot that could be fired or the number of human beings who could be killed. The one strictly limited article on the programme is the purchasing power of the combatants. Finance will be the governing factor.

Modern war has resolved itself into a question of money. Its cost will determine its length, and the cost itself will be determined by the longest purse. Nations engaging in the terrific duels of the future will keep at it as long as they have a penny to spend. They will tax themselves to death, pledge their last asset, and strain their credit to breaking-point before they give in. But it will be quickly done. Before they know where they are they may have reached their last financial ditch. It will take them a wonderfully short time to scatter two or three hundred millions sterling, but a much longer time to collect it again.

The borrowing and taxing power of a nation is nowadays the final test of its military strength and endurance. It is more decisive than either numbers of troops or weight of armaments. So greatly has this spending capacity of armies and navies outrun the financing capacity of Governments, that the most advanced German strategists have abandoned the numerical standard of efficiency. They look to quality more than to mere quantity, and one of them has expressed the opinion that half a million is as large an army as any nation can keep long in the field if properly fed and financed. Better work, he thinks, might be done with half a million than with double the number of troops not so well handled and provided for.

Just as the naval strength of the great Powers

is being concentrated in a small number of huge Dreadnoughts, in place of being scattered over scores of smaller vessels, so their military strength may be concentrated in a selection of highly-trained and perfectly-equipped regiments. This is obviously the policy on which the German Army is now being reorganised. It has a most important bearing on the probable cost of future wars. If the essential object of war can be achieved by a comparatively small force of picked regiments and a comparatively small fleet of Dreadnoughts, then the strongest check on militarism will be removed, or, at least, greatly modified.

To mobilise at once the whole of the trained soldiers in Europe would be a financial impossibility. No single Power could undertake an immediate and complete mobilisation. Least of all could Germany do it. The five millions of trained soldiers whom the Kaiser claims to have at call could only be brought into action gradually, and the bulk of them would be used simply as reserves. Herr Bebel, the Socialist orator, entirely overlooked this fact in the powerful protest he made against war at the recent Socialist Congress at Jena. When he said that "every day of mobilisation costs from 45,000,000 to 50,000,000 marks (£2,250,000 to £2,500,000), he evidently assumed that the whole five million available men were to be called out at once. But that would be impracticable.

The funds at the disposal of the German Government—including, of course, the loans it might be able to arrange for—would determine the size of the forces with which it might start a campaign. On its success in the field all its subsequent financial operations would depend. Victories would render further borrowing and taxing comparatively easy, while defeats would render them increasingly difficult. All these problems have been thoroughly studied and thought out at Berlin, not only by the General Staff of the Army but by the Imperial Treasury and by the heads of the German banking world. They have even been openly discussed at conferences of bankers and in the German financial press.

Herr Bebel's calculation of 45,000,000 to 50,000,000 marks a-day for mobilising the German army represents an average cost of 10 marks or 10s. per man per day. The usual estimate hitherto for Continental troops has been 6s. or 7s. per man per day, while for British troops it would have to be twice as much. The financial incapacity which has always characterised the British Army, from the War Office downward, is worth an army corps to any nation that may find itself opposed to us. To the Germans it would be worth much more, for they know best this joint in our armour, and have made themselves specially strong in military finance.

It is said that the Imperial Government has drawn up a long list of financial decrees which would be immediately issued on the outbreak of war. Among them would be one forbidding withdrawals of bank deposits until further notice. In order to deaden the shock of such an order, the Government would assume responsibility for one year's interest on the impounded balances. This may or may not be authentic; but it is a significant indication of how thoroughly the financing of their next war is being thought out by German statesmen, and how far they are prepared to go in devising safeguards and precautions against war panics.

If we turn now to the British side of the same problem, a very different situation will present itself to us. One important advantage we may claim over Germany, inasmuch as a naval mobilisation entails much less extra expense than a military mobilisation. For the first year of a war our naval expenditure might not need to be much more than doubled, but even that would mean an additional forty-five millions sterling. The naval estimates for the current year are £44,392,000; and a war year might raise them to ninety or a hundred millions.

The Army Estimates for the year are £27,690,000, and they might easily treble or quadruple themselves in the first year. Our War Office policy of "muddling through" has

always been a costly game, and every time our unfortunate Army is reorganised it finds itself in a worse financial muddle than before.

Though past wars—even the most recent—can furnish very little guidance as to the future, it is interesting to recall their financial results. The Franco-German war cost France over 9000 million francs (9,287,882,000), one half of which represented the war indemnity paid to Germany. In sterling that would make £371,515,000; and as the war expenditure went on for about nine months, its daily average would be fully a million and a quarter sterling. The other big European war of the past half century—the Russo-Turkish—cost Russia £153,628,000; but she had two years' hard fighting for her money. A characteristic of both these wars was their bad financing. Possibly a third of the army expenditure was wasted.

The one thing quite certain about the next war is that the first move would have to be a big war loan. At least six months' supplies for every efficient ship in the Navy and for the largest army we could rush into the field would have to be provided. A hundred millions would soon disappear in mobilisation and the first two or three months' operations. While it was being raised and spent the Chancellor of the Exchequer might be preparing his Budget of war taxes. These would, of course, have to be pushed to the very brink of confiscation, and that might

not take so very long to reach as optimistic politicians imagine. How much could be stuck on an income-tax already ranging from 9d. to 1s. 8d. in the £, without risk of ruining the taxpayer?

Another sixpence would be as much as any rational Chancellor of the Exchequer would venture to begin with. If he found that it produced a proportionate return he might, as a desperate measure, risk a third sixpence in the £. But there would be a danger of overstepping the limit of endurance, which would be suicidal. Up to a certain point the yield of a tax may keep step with the rate, but beyond that it may decline instead of increasing. Pitt's income-tax was only two shillings in the £—the rate that Mr Lloyd George would have to start with. It was considered a crushing burden—not only by the unfortunate victims, but by Pitt himself and by all subsequent critics. The maximum income-tax levied during the Crimean War was 16d. in the £, and the highest levy made by Sir Michael Hicks-Beach during the Boer War was 15d. in the £.

Mr Lloyd George would have to begin his war taxes where his predecessors left off, and in fact higher than that. At the opening of the Boer War the income-tax stood at 8d., and it was not disturbed until the second year of the war, when it was put up to 1s. In the

third year it was raised to 14d., and in the final year to 15d. Income-taxpayers were therefore not severely punished in the Boer War. They may look out for much more drastic treatment in the next war that has to be financed — especially if the present fiscal *régime* should continue in full power.

It is a curious coincidence that the annual yield of the income-tax just now is about the same as it was at the height of the Boer War. In 1902-3 Sir Michael Hicks-Beach obtained from a 15d. rate £38,038,000; and the average of Mr Lloyd George's two Limehouse years, 1909 and 1910, has been £38,345,000. The income-tax is thus already on a war basis, and its capability of expansion must necessarily be much smaller than if it were starting from a normal level. In Gladstonian language, "its elasticity has been seriously impaired" to begin with, and the results of further screwing up might be very problematical.

If we measure it by its gross yield instead of by the rate in the £, we shall have still stronger ground to fear that the limit of endurance may be only too speedily reached. Less than thirty years ago the net yield of the income-tax was under eleven millions sterling (1883-84, £10,720,000). On the eve of the Boer War, little more than ten years ago, it was under nineteen millions (1899-1900, £18,720,000). In

a single decade it has nearly doubled itself, and the first war levy would increase it by at least 50 per cent.

A one-shilling rate produced in 1909 £33,700,000; and, assuming that a two-shilling rate doubled the amount, there would be £67,400,000 to find for this tax alone. Of course, all the other property taxes would receive a due measure of attention from the Chancellor of the Exchequer. The estate duties, which in 1910-11 yielded £25,452,000, would have to be screwed up to the limit of safety. But even if the present oppressive rates could be increased by 50 per cent, it is highly doubtful if much more could be got out of them. It might even happen that no amount of screwing up could extract more money from them. It might not even maintain their normal yield.

A vital defect in income and property taxes as war taxes is that, when additional yields are most needed, they will be most difficult to obtain. The first effect of a great war would be to demolish property values and play havoc with incomes. Many income-taxpayers would lose their livelihood altogether, while others might be seriously crippled. The survivors would have to be more heavily taxed merely to maintain the previous yields. Taxable property would suffer even more than incomes. The estates becoming liable for death duties would be enormously reduced in

value. There would be few millionaires in the list, and even a modest £100,000 might become a rarity.

But the concocter of the coming war budget may say that if taxable incomes and estates fail him, there will be the house and land duties to fall back upon. The house duty brought in last year little more than three millions (£3,080,000), and it is a sufficiently unpopular tax as it is. To double it would produce, at the utmost, only another three millions, and very probably break up the Government which suggested it. But there still remains Mr Lloyd George's own special and peculiar sphere of taxation—the land values. Unfortunately, from a war finance point of view, they are only farcical. The revenue obtained from them last year (1910-11) was as under:—

Increment value duty . . .	£127 0 0
Reversion duty	257 5 0
Undeveloped land duty . . .	2,351 7 9
Mineral rights duty . . .	506,546 10 4
	£509,282 3 1

If these precious duties were doubled, the additional yield would not pay for the fourth part of a Dreadnought. If with a stroke of the pen the whole of our revenue from income and property taxes could be increased 50 per cent—and that in many cases would be ruinous to the taxpayer—the Chancellor of the Exchequer would not get more than another forty millions a-year

out of them. The increase might work out thus—

Income-tax (average of 1909-10 and 1910-11)	£38,345,000
Estate duties	25,972,117
Stamps	9,759,286
House duty	3,214,284
Land tax	1,258,939
Land values (1909)	509,282
	£79,058,908
On which a 50 per cent surtax for war expenditure might produce at the utmost	£39,529,454

In reality, such a tax could not be safely relied upon to produce more than 25 per cent above the normal yield—in other words, £19,764,727; or, in round numbers, twenty millions sterling. At the moderate rate of a million sterling a-day—only half the cost of German mobilisation, according to Herr Bebel—that would last only twenty days. A supplementary demand on the Customs and Excise departments would be inevitable. Mr Lloyd George, as a Free Trader, would attack the Customs duties very reluctantly, and as a Social Reformer he has already bled the Excise white. Extra taxes could certainly not be imposed on food already at famine prices, or on raw materials which would be indispensable to keep our factories going. The only articles on which a war tax could be levied without actually reducing rather than increasing their consumption would be tea, sugar, tobacco, and spirits. Their respective yields last year were—

Tea			£5,941,372
Sugar			3,043,500
Tobacco and snuff			18,838,495
Spirits—			
Imported	£4,306,976		
Home-made	20,269,520		
			24,576,496
Wines			1,238,662
			£53,638,525
War tax of 20 per cent			£10,727,700

It would be a very puzzling question for the experts at Somerset House how far these already heavy imposts could be increased without killing the goose that lays the golden eggs. Even the moderate surtax of 20 per cent might do mischief; and if it did not, the extra revenue obtained would be under eleven millions sterling. Nowhere does the "robber of hen-roosts" seem to have left much margin for the cost of war. We have provided ourselves with the most up-to-date fighting machines, but are being taxed beforehand out of all the reserved capital which should have been religiously kept for operating them when needed! Thirty to forty millions sterling a-year is the extreme limit of war taxation available to us, and that could only be levied at the risk of curtailing consumption, and thus obtaining less instead of more revenue.

A last resource might be open to a bold Chancellor of the Exchequer, uncompromised

by Limehouse speeches. It would be to lower the income-tax minimum from £160 to £100 a-year. Even then it would be more than double the German minimum of £40 a-year. But for a "friend of the people" Cabinet, that is, of course, out of the question.

Another desperate resource would be to reduce the administrative expenditure of the country. A Civil Service Budget amounting this year to £34,373,000 could stand some drastic retrenchment. If it were cut down by one-fourth, that would only be putting it back to the level of seven years ago. A second saving, at once easy and substantial, might be effected by suspending the subsidies to local authorities. A grave financial abuse which is never likely to be cured by pacific means would be a very suitable subject for war measures.

Of course, there would be a prompt inroad made on that long-suffering reserve, the new Sinking Fund. But Mr Lloyd George has been more than once at that financial cupboard already, and the little that is left in it would soon be swallowed up by the interest on the new war debt. The only large economies which could be effected in our administrative expenditure would be, say, eight millions on the Civil Service and ten millions on the local taxation grants. Add to this eighteen millions the thirty millions of possible revenue from war taxes, and we have barely fifty millions as the maximum

war revenue that could be raised without danger of a national breakdown. The actual receipts might in every case fall far short of our estimates. They might not even do much more than make good the tremendous decline there would certainly be in the yields of the ordinary taxes.

The wisdom of attempting to raise additional revenue in war times from taxes on consumption is in fact open to question. At all events, such war taxes have economic limits which, in a country where the vast majority of consumers live from hand to mouth, may be soon overstepped. It has to be remembered that not only would trade be disorganised, industries crippled, and employment greatly curtailed, but the financial machinery of the country would be thrown completely out of gear. It is a question how long specie payments could be maintained, or how long it would be advisable to maintain them. As a choice between two evils—a desperate effort to keep on a gold basis or an equally desperate effort to do without it —practical financiers incline to the latter.

But that is a question which cannot be decided in advance. It is one of the crooked financial bridges which we need not try to cross until we come to it. This much we know from past experience, that no great European war has ever been fought on a gold basis. And with all respect for Threadneedle Street, gold may cut a

still smaller figure in the next one. The suspension of specie payments is such a simple expedient, and so elastic, that no Government fighting for its life would hesitate to try it. It is one of the many possibilities of war finance which Mr Norman Angell has completely overlooked, and the omission vitiates his angelic theory.

In actual war the two supreme considerations for the community itself will be food and raw materials. So long as we have ample command of these, all other difficulties will be matters of detail. After all, paper money, duly and regularly issued, by a responsible Government, is simply a primitive form of credit. Of course, it will be more troublesome than ordinary loans, but if these cannot be obtained unless at bankrupt rates, it may serve as a substitute for them. Inconvertible Bank of England notes, such as were in use between 1797 and 1816, might be better war finance than selling Consols at 60, if that were the only alternative.

To conclude, if Great Britain should be bullied into war with any European Power, we may prepare ourselves for a war expenditure of at least a million sterling a-day; for war taxation of nearly a million a-week; for an addition of three hundred millions to our National Debt; and for a possible decade of paper money. It all sounds dreadful, no doubt, but who is taking the best way to avoid it—the Norman Angell idealists,

or the practical men who look the facts in the face? The more we assure ourselves that war is an unprofitable game, and that the Germans are too sensible to plunge into it, the louder the Germans may laugh in their sleeve, and the faster they may push on their preparations. Finance never yet *prevented* an outbreak of war, though it has brought many wars to an abrupt conclusion. The Germans know all the outs and ins of war finance better than anybody else. They have made up their minds what financial risks are worth taking for the sake of the highest prize any nation can aspire to—a ready-made Colonial Empire. Half a dozen "Black Saturdays" in Berlin would not frighten them from their purpose. These are but passing storms that clear the atmosphere. If financial chaos has to come anyhow, a Bourse panic more or less won't signify.

SUMMARY OF CHAPTER XX.

The Germans the most systematic students of military finance. They pay special attention to the financial and economic conditions of Great Britain, comparing them carefully with their own. If war risks were properly discounted and provided for, few military States would find themselves solvent. They all live more or less from hand to mouth, ignoring future contingencies. The banking problems of war. How they are studied by German bankers. The German Bankers Convention at Hamburg in 1907 discussed them at length. Important paper by the late Mr Warburg on "The Bourse Law and Financial Readiness for War." He pointed out the weak side of "financial mobilisation." Colonel von Renould's calculation that in 1922 Germany would be able to put ten million men in the field. To maintain such a force would cost three millions sterling a-day, or 1095 millions sterling for the first year. An equally strong opposing force would cost another 1095 millions —a *reductio ad absurdum* according to the financial standards of the present day. Stoll's special measures of war finance criticised: (1) to appropriate all the gold in the Imperial Bank; (2) levy forced loans; (3) issue forced currency; (4) decree a general moratorium. Mr Warburg's alternative proposals. Germany's chief weakness is lack of an international market for her securities. Consequently in any future war she would have to do most of her borrowing at home and through the Bourse.

MODERN WARS AND WAR TAXES

PART V. WAR FINANCE OF THE FUTURE

CHAPTER XX. GERMAN STUDIES IN WAR FINANCE

In these days, when the military Powers are watching each other with jealous eyes and taking stock of each other's resources, no single factor in the case can be safely neglected. The one which it would be most perilous to neglect or to underestimate is financial strength. Of all nations the Germans were the first to show adequate appreciation of this factor. From the birth of the new German Empire they have realised the importance of having it properly financed. This fundamental necessity they have kept continually in view, and it is to-day more than ever before the uppermost thought in their minds.

Another problem they study quite as diligently as their own is the financial and economic strength of Great Britain. They know our weak and our

strong points better perhaps than we do ourselves. They are beginning to draw comparisons between our financial progress and their own. It is significant how frequently books of this class issue from the German press. And anyone who examines them will be surprised at the mass of carefully-selected and well-digested information they contain with regard to both countries. So scientifically have they thought out the various branches of the question, that their conclusions are beginning to assume definite shape and substance.

The great wars of the future will be so costly, not only in men, money, and material, but in national vitality, that from the moment they begin normal budgets will have to be thrown to the wind. Judged by this standard, there are very few solvent countries. There may be many well able to meet all ordinary risks and liabilities, but there are few, if any, who could put a great army in the field and keep it there for a single year without danger of financial collapse. This is not the dictum of a theorist, much less is it the wild cry of a military alarmist. It is a financial problem of the first class which is exercising the minds of bankers and financiers.

It may seem a sweeping statement that, taking war risks into account, there are not more than one or two States which can be considered fully solvent. In this matter a precarious balance between ordinary revenue and expenditure is of no

account. Over and above that there ought to be an ample margin for emergencies. Second- and third-rate Powers may continue to trust to their normal budgets. They have, in truth, no alternative, as their necessities condemn them to hand-to-mouth finance. Moreover, they are not in imminent danger of being called upon suddenly to face the frightful risks involved in modern war. It is hardly conceivable that they should have to stake their last dollar on a question of national honour or existence.

But such risks are not merely conceivable in the case of the great Powers; they are ever present, and have to be constantly kept in view. Any great Power may, with very slight warning or preparation, find itself launched into double or treble its normal expenditure, and may have to bear for months or years a ruinous drain on every element of its national strength. This formidable contingency, which might have occurred years ago to practical statesmen and financiers, seems only to have dawned on them lately. They have discovered that nowadays a great military Power, in order to be prospectively as well as actually solvent, must have a double income — one for current needs, and another to fall back upon in times of national peril.

A combination of peculiar circumstances has brought this question to the front in Germany— the most suitable place for its discussion. The Germans, of course, treat it with their usual

thoroughness, and the more that they appreciate its gravity the better it may be for the future peace of the world. There was special significance in the way in which it first came up, or, rather, was brought up. Bankers have not hitherto taken a very keen interest in war finance, unless when war loans and war taxes forced it upon their reluctant attention. In peace times they have found enough to do in watching their current balances, and keeping their assets as liquid as possible consistently with satisfactory dividends. That they should concern themselves with high questions of State and difficult problems of war never occurred to them. Now, however, they are waking up to the fact that these are bankers' questions also.

The next big war will develop profound problems of banking as well as of statesmanship: it will be a great financial as well as a great military ordeal. That is what the German bankers recognised and discussed in their annual Convention at Hamburg in 1907. They did not meddle with it lightly or gratuitously. It came up naturally as one of several financial questions of critical importance to the Empire. The first of these was the crippled condition of the Bourse, owing to the disastrous operation of the anti-Bourse Law passed in 1897 to pacify the Agrarians. The next was the financial stringency which was produced by the industrial boom of 1907. A third was the uncomfortable relations

which prevailed then, as now, between the high finance of Berlin and that of Paris.[1]

The outcome of these and a few other kindred difficulties was that German bankers began to ask themselves what their position would be in the event of the Empire becoming involved in a first-class war. Financially speaking, they would be in a first-class dilemma, and the Finance Minister of the Empire would be in something still worse. Germans have in a high degree the bump of candour. Both in their public and private affairs they do a lot of thinking aloud. So they did in the Bankers' Convention at Hamburg. An international banker of repute, since dead, broached the war question in a paper on "The Bourse Law and Financial Readiness for War." This paper and the discussion which it evoked should be known to every banker in Europe and America,—above all, to those who are engaged, however slightly, in international finance.

Mr Warburg began by recalling the fact that three years before a European war was inconceivable. Soon afterwards the Morocco episode happened, and they could not forget that for months together they had then to reckon with European war as an actual possibility. Now that peace seems to be again more firmly assured than it has been for a long while, we may, he said, speak openly about these events without

[1] November 1911.

fear of calling up spectres or of upsetting the stock markets. The fact that in the teeth of such difficult complications peace was maintained permits us to hope that in our time war will become less possible the more clearly that its frightful consequences are realised.

But, continued Mr Warburg, deftly turning a sharp corner, we can enjoy secure peace only when we are at all points ready for war. While the Empire is paying 1100 million marks[1] a-year for military "readiness," it seems a necessary consequence that it should also be financially ready for all eventualities. This it ought to be even when there is nothing to trouble about in the political situation, otherwise its military expenditure can never be effective. From that point of view Mr Warburg put the question, "Is the Empire financially ready for war?" Is our mobilisation as well organised in the financial as in the military sphere, and when put to the test is it likely to work as well?

The reply given to that question was an emphatic negative, and in developing it Mr Warburg broached a number of novel and interesting phases both of national and international finance. Incidentally he pricked the popular theory that future wars must necessarily be short because they will be so destructive. The greatest military authorities in Germany have never been of that opinion. Von Moltke,

[1] 55 millions sterling.

in his famous speech on the 14th May 1890, predicted that, instead of being shorter, wars are more likely to be longer. General Von Blume had expressed a similar belief. There was nothing, he said, in the perfection of modern military armaments to justify a hope that they would do their work any quicker than when they were less complete.

German strategists have made some very imposing calculations as to the magnitude of military operations fifteen or twenty years hence. Colonel Von Renauld reckons that in 1922, if Germany were to call out all her military strength, she could put in the field ten millions of fighting men. But the strategists have left it to the financiers to settle how the ten millions are to be paid and fed while in the field. The latest estimate is that six marks (six shillings) per man per day would be required to cover all the expenses of a campaign. Sixty million marks, or three millions sterling, per day would make 1095 millions sterling for the first year.

To carry a campaign even so far would require some gigantic financing. And that would be only one side of the war. The other side might also put its ten millions of men in the field, and there would be a second 1095 millions sterling needed. Both combatants would soon be crushed under the weight of their own big battalions. More rational strategists, foreseeing this dilemma, have endeavoured to avoid it by proposing to put

in the field only the pick of their fighting men. General Von Liebert holds that it would be better strategy in the above case to call out only four and a half millions and hold the other five and a half millions in reserve. He would even limit the active army to three millions, thereby reducing the cost from twenty-two milliards of marks to seven milliards.[1] That would still be 350 millions sterling, which appears to be about the minimum estimate for one year's work of a first-class modern army. A two-handed campaign would cost, therefore, 700 millions sterling a-year, and a triangular campaign would make a big hole in a thousand millions sterling.

Marlborough might well turn in his grave at such war finance. He never had three millions for any single campaign, and he needed to have a special banker at his elbow all the time to enable him to raise even that paltry sum. The French General Von André is rather more lenient than the German strategists. His minimum estimate of the cost of a general mobilisation in France is twenty millions sterling per month, or 240 millions per annum. These military details Mr Warburg set forth as a preamble to the financial problem. In approaching it, he observed very truly that at the outbreak of a war the war itself would not be the only thing to provide for. There would be a financial panic as well, and its

[1] A milliard of marks is £50,000,000; a milliard of francs, £40,000,000.

demands would have to be satisfied simultaneously with those of the war.

Apparently this is by no means a new study with the Germans. Many proposals have been made for meeting the emergency, and elaborate treatises have been written on it, notably that of Stroll. Mr Warburg glanced at the chief of these proposals, namely:—

1. To suspend publication of the weekly returns of the Imperial Bank.

2. To appropriate, either partially or wholly, the gold held against Imperial Bank notes.

3. To levy forced loans.

4. To issue forced currency.

5. To establish loan offices with right of note issue.

6. To decree a general moratorium.

These and other kindred proposals have not only been put forward, but certain over-provident people have gone farther and advocated an early adoption of them, so that they may be applied without delay as soon as war breaks out. They wish to be ready not only to the last sausage, but to the first greenback. Mr Warburg mildly, but firmly, protested against this previousness. He particularly referred to the over-zeal of Under-Secretary Von Mayr, who, with a view to forced loans, had suggested that a cadastre of all propertied persons should be prepared in time of peace, and pigeon-holed along with the plan of campaign. Such heroic measures, he admitted,

might have to be resorted to, but they should come last and not first. All measures of war finance should be so framed as to cause the least possible disturbance to the normal economic operations of the country. Even the gold cover of the paper currency he would leave alone as long as possible, being encouraged thereto by the fact that neither Russia nor Japan had in their late war to sacrifice all their gold reserves.

As might have been expected of a conservative banker and a skilled international financier, Mr Warburg was strongly against convulsive and revolutionary expedients. First, said he, let us get all we can out of every source of income already provided during peace, and for the rest we must utilise our credit. Here came the rub. Credit can only be utilised by means of a strong Bourse, and to-day the German Bourse is notoriously weak. Whatever be the cause, and no doubt there are more than one, German credit is usually at such high pressure as to be dangerously near the exploding point. It has all it can do to meet its current engagements, even with the help of Paris, which is given grudgingly, and at any serious pinch might be altogether withdrawn.

The greatest drawback to German finance is the lack of an internationl market for its securities. Even Imperial funds are not international in the sense that Consols and French Rentes are. German statesmen and financiers are very

sensitive on this point, and exercise all their ingenuity in counteracting the drawback it involves. Hence their anxiety to obtain British and French co-operation for their foreign enterprises—the Bagdad Railway among others. The more foreign financing they can do, the more of their own capital is left free for home use. That the latter is being made the most of is evident in every branch of German trade and industry.

Mr Warburg thus enumerated the domestic resources which the Empire might count upon in the event of war:—

1. The war chest of 120 million marks (six millions sterling) in the Juliusturm at Spandau. That was considered a big nest-egg in 1871, but it is a mere speck now beside the milliards which the War Lords are to need next time they ride out to battle.

2. Substantial increases in existing taxes, in railway, postal, and telegraph rates, and in the "matricular" contributions of the States. All these resources are, however, dangerously limited by the fact of the Empire having no independent revenue except customs duties.

3. Pitiless cutting down of civil expenditure, especially on everything that might be temporarily dispensed with, such as culture and public buildings.

4. Strict enforcement of all legal contributions to which communes and private citizens may be liable in war time.

5. By raising loans (*a*) through the Imperial Bank and (*b*) by public subscription.

As to foreign participation in these loans Mr Warburg was by no means hopeful. He recalled an incident in the financing of the war of 1870, which most of his countrymen may have forgotten. It was not till near the end of that war, when its issue had been absolutely decided, that the first and only foreign loan it called for was raised in England. In a new war it might be still more difficult for Germany to borrow abroad. She could apply only to financial or political allies. As with the former it would be a matter of business, their terms would depend on the success or otherwise of German arms. Over the question of political allies Mr Warburg skipped lightly. Without saying in so many words that Germany had none who could be of much financial use to her, he made a confession amounting to that: "We dare not, like Russia and Japan, count on political friends coming to our assistance with loans."

So after a general review of the outlook, Mr Warburg came round again to the Bourse question. His conclusion was that, as Germany in any future war might have to do most of her borrowing at home and to do it through the Bourse, the embargo she had laid on the Bourse might, in a national emergency, prove suicidal. This complication in the German case tended, no doubt, to obscure the main issue. Happily for us,

it does not exist in England, and in its absence we can feel the full force of Mr Warburg's plea for a well-thought-out scheme of war finance. One passage in his address indicated that he considered our own war problem less complicated and obscure than the German one. A slight touch of envy may, perhaps, be seen in the following tribute to our financial position, but the tribute is none the less welcome:—

"The State which provides itself with the most highly developed machinery for the circulation of money (Geldverkehr), and which, through the best organisation of its banks and bourses, ensures this circulation being carried on with the smallest conceivable risk and the least absorption of metallic money, has a great advantage in the rivalry of Nations."

SUMMARY OF CHAPTER XXI.

Can the great wars of the future be financed without plunging the markets of the world into chaos? Sir Robert Giffen's paper on "The Necessity of a War Chest or a greatly increased Gold Reserve," read before the Royal United Service Institution in 1908. His comprehensive survey of the risks involved. He stops short at the normal conditions of international finance, and does not discuss the probability that the strain of war might be so great as to force one or both belligerents into abnormal measures, such as the suspension of specie payments. A war between two great Powers not necessarily disturbing to markets in proportion to the magnitude of their operations. Greater precautions sure to be taken to limit the prejudicial effects of a big war than would be thought necessary for a small war. Sir Robert Giffen's catalogue of "the mischiefs to be anticipated from the outbreak of great wars affecting the leading civilised States": (1) the stoppage of imports; (2) a run on the deposit banks; (3) extensive loss of employment; (4) economic disorders leading to civil tumults, which may hamper the Government in prosecuting the war. Neglect of Sir Robert Giffen's warning. Mr Edgar Crammond takes up the inquiry in 1910 and reads a paper before the Institute of Bankers. He endorses the conclusions of Sir Robert Giffen, and further illustrates the disastrous effects which a great war might have on our foreign trade. His serious warning as to our food-supplies.

MODERN WARS AND WAR TAXES

PART V. WAR FINANCE OF THE FUTURE

CHAPTER XXI. BRITISH STUDIES IN WAR FINANCE

So far, Europe has succeeded in financing its wars without causing serious or permanent injury to the machinery of its civil life. War taxes have been levied and war loans have been raised with more or less difficulty, but without any absolute breakdown either in the credit or the fiscal income of the belligerents. But with the steady growth of armaments and of their cost the question becomes more and more imperative how the great wars of the future are to be financed without plunging the money and the stock markets into sheer chaos. Is this possible or not?

Even to experienced financiers such a risk appears grave, and we need not be surprised to hear that it has of late been engaging their most serious attention. In Germany it has

been taken up with characteristic thoroughness. In the army it has been adopted as a special study for the General Staff. In the diplomatic service it is equally appreciated; but, of course, it is the bankers who are most interested in it. In business the thought of having one fine morning to face a war panic in all the Bourses of the Empire is ever present with them. Privately and publicly they discuss it, both as a professional problem and as a patriotic concern. The German Press also deals with it frequently and openly.

Incredible as it may sound, this part of the war problem was never even mentioned in England until lately. It was first broached by the late Sir Robert Giffen, who in March 1908 brought it before the Royal United Service Institution in a paper on "The Necessity of a War Chest in this Country or a greatly increased Gold Reserve." Sir Robert was all his life the reverse of an alarmist, but he had good ground for becoming a Jeremiah on this occasion. "What I desire," he said, "to bring before you is something different (from the question of an ordinary war chest). It is the difficulty that may, and must, arise among the leading States should they become engaged in war with each other to an extent that jeopardises the mechanism of credit in the States affected and throughout the commercial world generally. It appears to me that this is a for-

midable possibility of the international credit system that has never been adequately considered."

Sir Robert Giffen's strong point as an economic critic was comprehensiveness. In dealing with a complex problem like the financing of a great war, he followed the example of a judge summing up an intricate case. He collected all the facts bearing on the issue and set them out in their proper order. In doing so he passed very sensible judgments on each set of facts. His presentment of the problem would be as complete as it could possibly be made. But having done so, he stopped short, and did not take into account the possibility of important changes taking place in the conditions he was dealing with as soon as they came into action. All his calculations were based on normal conditions, but nowadays financial conditions are more frequently abnormal than normal.

This peculiar limitation of his methods is very marked in the paper which he read in 1908 before the United Service Institution on the necessity of a war chest in this country. He took for his text what he called a "war of unlimited liability," meaning thereby a war involving most of the leading nations at once, and "more especially involving the State which possesses the citadel of the credit system—our own." It is quite unnecessary to pick out special examples, as the essential point to con-

sider is a breakdown of the international credit system. Any war which had that effect would be "a war of unlimited liability," no matter whether the Powers engaged were first or second class.

A State of secondary political rank might, from its extensive commercial and financial ramifications, have more power over international credit than one of greater political but smaller commercial importance. Neither does it follow that the most serious and widespread financial dislocation must begin at a leading monetary centre. The most disastrous crisis of our generation originated in a South American Republic, from which no one expected any trouble. I refer, of course, to the Argentine collapse of 1890. Compared with an Anglo-German or a Franco-German war, that event would have seemed trivial, but it paralysed international finance for several years to an extent which no war had ever done before.

The rather alarmist conclusions arrived at by Sir Robert Giffen in 1908 are therefore subject to two preliminary qualifications—first, that it is not wars alone that may fatally upset international finance; second, that their evil effects on international finance need not necessarily be proportioned to the magnitude of the war or the importance of the Powers engaged. A third but more indirect qualification may be added, that much greater and more thorough pre-

cautions would be taken to minimise the bad effects of a big war than would ever be thought of in the case of a small war. Governments, bankers, financiers, traders, and the entire business community would promptly prepare for the violent collapse which would seem inevitable on the outbreak of a first-class war. For a less threatening crisis they would be much more likely to make inadequate preparation, and consequently to be caught napping.

One more point in favour of the big war is that there would be less hesitation about resorting to exceptional measures in financing it than would be felt in the case of a small war. For the safety of the United Kingdom, and through it of the British Empire, we might be willing to sacrifice Magna Charta, the Habeas Corpus Act, the Bank Act, and even Mr Lloyd George's State Insurance Scheme. That would give the Government a very free hand, and dispel at a stroke some of Sir Robert Giffen's worst apprehensions. He admits of no abnormal remedies, though he casually refers to the suspension of specie payments as possible in the last resort.

As an orthodox theoretical economist, Sir Robert naturally endeavoured to keep within normal limits throughout. But the practical man has to project himself beyond these, and to anticipate the worst eventualities. He has to consider not only the risk of our gold reserves running out, and of the business of the country

having to be adjusted to a purely credit basis, but what the situation would be if that final calamity were to happen. Would it be as dreadful as it is generally depicted in Lombard Street, or might it prove to be an exaggerated bogey?

Having indicated the line of inquiry pursued by Sir Robert Giffen and how far it goes, we may now accompany him over the ground which with characteristic care he has marked out. The most enlightening part of his paper was his classification of "the mischief to be anticipated from the outbreak of great wars affecting the leading civilised States." He enumerated these somewhat as follows:—

First, The stoppage or great contraction of the volume of imports and exports between hostile States and the States dependent on them. This, he predicted, would extend far beyond the principal belligerents, and the consequent

> commotion in the whole banking world would be something quite unexampled. Every month, every week, every day, bills are coming due in the great centres, and especially in London, which cannot be met if the regularity of trade is interfered with. . . . Interruption of the regularity of trade means accordingly widespread ruin to merchants and bankers together.

Second, "There would be a run for cash and withdrawal of deposits from banks, which would also tend to bring about general failure and bankruptcy."

Third, "The general apprehensions and troubles that would arise from extensive want of employment constitute another kind of mischief."

Fourth, and probably the most serious mischief of all—

> Great economic disorders at the outbreak of a war, or when war is threatened, may hamper the politicial and diplomatic action of the Government, and impede the direction of our naval and military forces. Instead of attending to the business of the war itself, the Government may have its hands tied by questions of unemployment and civil tumults, and may have to face all of them at once, including the dilemma of issuing inconvertible paper.

This vivid forecast of the war risks for which every great Power in Europe should be prepared, and the United Kingdom by no means least, is the most valuable part of Sir Robert Giffen's paper. It forcibly arrests the attention, and even if the reader should go no farther it will give him not "furiously to think," as a Frenchman might say, but seriously and earnestly. Up to this point we can all agree with the writer in the main. There may be some difference of opinion as to the magnitude of the several calamities predicted, but the smallest measure of them would be bad enough. If we can agree about any of them more readily than about the others, it will be the last.

Every Government which has been going in headlong for social reform as ours has been doing

is bound to have its hands at all times full of most intricate and perplexing questions. It will also be hampered with a vast amount of administrative machinery quite outside of its proper political functions. And it will have undertaken financial obligations to all sorts of people which call for immense sums of money weekly, monthly, and quarterly to implement. When the Lloyd George programme is completed, if it ever should be, three-fourths of our working people will be State pensioners, savings bank depositors, and State insured citizens.

Any one Government would have enough to do to look after this huge ramification of eleemosynary experiments without having a Legislature, an army, a navy, and an over-seas Empire on its hands at the same time. How it could deal with bread riots or labour revolts or unemployment troubles with an enemy at the gates will pass the wit of man to imagine. At any moment something might go wrong with its old age pensions or its insurance benefits or its savings bank deposits, and not all the eloquence of Whitefield's Tabernacle could soothe or reassure panic-stricken crowds. They would want their money, and if it were not forthcoming Mr Lloyd George would not have much attention to spare for hostile fleets either in the Channel or the North Sea.

"Questions of unemployment and civic tumults" were mere possibilities to Sir Robert Giffen in 1908. Were he alive now he might have to

speak of them as probabilities. A year or two hence, when the "ninepence for fourpence" policy is in full operation, we may have to regard them as certainties. The worst risk we should have to face in a national fight for life might not be the enemies' guns. It might be the leather-lunged orators of Tower Hill and Trafalgar Square. Just as the Commune did more harm to Paris than the German siege, so our domestic army of Government employees, pensioners, "ninepence for fourpence" *protégés*, and subsidised proletariat generally might be a fatal drag on our military operations.

There are two aspects in which these special war risks should be studied—first, as risks which the country should be fortified against, and secondly, as possible temptations to rival States which may either justly or unjustly be putting diplomatic pressure on our Foreign Office. Nowadays every vulnerable point in the armour of a nation is not merely a danger in itself but it may be an invitation to other nations to "bulldose" or even to attack it unawares.

Very little notice was taken at the time of Sir Robert Giffen's attempt to excite public interest here in a subject which on the Continent was being recognised as of vital concern. Even in the City it fell flat, though the writer and one or two others did their best to point out its supreme importance. Fully two years passed in absolute silence, and then another alarm was raised by Mr

Edgar Crammond. On the 20th April 1910 he read a paper before the Institute of Bankers which continued and expanded Sir Robert Giffen's line of inquiry. He also gave it a more concrete form by furnishing statistics of the cost of the great wars of the past half century. Their respective totals were—

The South African War—		
October 11, 1899 to May 31, 1902		£217,066,000
Russo-Japanese War—		
February 9, 1904 to August 31, 1905 :		
Japan	£203,094,000	
Russia	300,000,000	
		503,094,000
Franco-German War—		
July 15, 1870 to March 1871 :		
France	£544,000,000	
Germany	77,550,000	
		621,550,000
		£1,341,710,000

In Germany's case the £77,550,000 does not, as in the others, represent actual loss. It was only her original expenditure on the campaign. In the final reckoning she had a war indemnity of £213,000,000 to set off against it, plus two provinces (Alsace-Lorraine) annexed, which have been valued at £64,000,000. Thus in actual cash Germany was a gainer to the extent of £135,450,000, and including the value of the two annexed provinces £199,450,000—in round

numbers, two hundred millions sterling. Mr Norman Angell, the "Great Illusionist," has not yet attempted to explain away the financial and economic results of the Franco-German War.

In addition to the direct cost of these wars, indirect losses of various kinds—commercial and industrial—have to be taken into account. Rough estimates of these have been made by Sir Robert Giffen and Mr Crammond, but we need not enter minutely into them. If we did we should have to consider on the other side the exceptional profits made out of the wars by army contractors, financiers, &c. The indirect losses of France in 1870 were, however, so remarkable as to call for special notice. In addition to the £64,000,000 valuation of Alsace and Lorraine, there were, according to Sir Robert Giffen, loss and damage of various kinds sustained, which he estimated at £112,000,000. That would make the grand total of the French loss, direct and indirect, £720,000,000, all sacrificed in less than nine months. It was nearly as much as Great Britain had to spend on her twenty years' struggle with Napoleon.

In this fact we have the most graphic illustration imaginable of the tremendous increase there has been during the past century in the cost of war. No wonder that all the military and financial experts concerned in it should be getting nervous about the big European wars there may be still to come. In attempting to anticipate their effect on the Money market, Mr Crammond

follows Sir Robert Giffen very closely, sometimes adopting his language as well as his arguments. He echoes his predecessor's appeal for stronger gold reserves, and supplements it with a still more practical one for a stronger navy.

Our future naval predominance [he says] should be placed beyond the possibility of question. The international financial system depends for its proper and efficient working upon the unchallengeable supremacy of the British navy, and if it be permitted to fall below such a standard, we shall be liable to all kinds of panics and disturbances which, in the long-run, will cost far more than any conceivable sacrifices we might be called upon to make to maintain our navy at the level suggested.

This may sound a very general warning, but Mr Crammond evidently had in his mind a notable precedent to speak from. A member of Lord Elgin's Commission on the South African War

expressed the opinion that if a few months before the outbreak of hostilities the War Office had had a sum of £10,000,000 placed at its disposal, to be spent only with the consent of the Cabinet but without the publicity of Parliament, preparations might have been made which would have reduced the cost of the war by probably not less than £100,000,000, even if it had not prevented the Boers from declaring war.

If the Germans had had Kruger to deal with in 1899, we may be pretty sure that the above £10,000,000 would have been put at the service of their War Office, and judiciously expended in

advance. To save £100,000,000 by timely outlay of one-tenth of the amount is the sort of problem that would appeal to them. But it would be a Parliamentary impossibility at Westminster. We may doubt if even Mr Lloyd George would have the audacity to ask for a ten million credit vote for objects "to be revealed hereafter." Should an emergency like that of the Transvaal overtake us again, we may be quite sure that the £10,000,000 will be saved, and the £100,000,000 thrown away as before.

The chief respect in which Mr Crammond's paper differs from Sir Robert Giffen's is its more detailed inquiry into the probable effects of a European war on trade.

> One of the many serious consequences [he says] would be diminished earnings from our mercantile marine. If the success of our naval forces were unquestionable the flow of shipping outside the disturbed area would probably be unaffected, except in foreign passenger traffic, which would be greatly reduced. If our prospects of success were doubtful, all the over-sea trade would be brought to a minimum, and the conveyance of necessaries of life would have to be made under special conditions. If our defeat were certain, then absolute stagnation would be brought about.

Here the food question would come in, and in all probability make a speedy end of our fighting power. Mr Crammond, following in the wake of a score of other alarmists on this point who have shouted to deaf ears, emphasises the very

small stocks which are now carried by our food purveyors.

The development of railways, shipping, and cold-storage plants has greatly facilitated the conveyance of commodities direct from the producer to the consumer, and the general tendency of trade is to dispense as far as possible with the holding of stocks either of food or of raw materials. Wheat and flour are by far the most important articles of consumption in these islands, and here our position is most vulnerable. Our supplies are drawn from such a wide area that it may be said that wheat comes to the United Kingdom in an uninterrupted course throughout the year. The minimum supplies generally occur in the month of August, and on several occasions the stocks then have fallen below four weeks' supply. A rise of prices under apprehension of a maritime war, and still more on the outbreak of hostilities, would be practically certain. There are two causes which would contribute to bring it about—(1) the disturbance of shipping and the increased cost of transport and insurance; (2) apprehension and uncertainty as to what was going to happen—that is to say, war panic.

Pursuing his forecast into the war itself, he proceeds—

There is no parallel in history to the experiences which this country would have to undergo in the course of a maritime war, because neither this nor any other country has ever before been so dependent upon external supplies of food and raw material. Following any capture at sea, there would be a sharp and rapid rise in the price of all commodities, and the increased cost of production would hamper the export trade at a time

when it would be heavily handicapped by the high freight and insurance rates due to war risks. This interference with trade would be specially prejudicial to industries, of which the export business is the principal part, as for example, the cotton trade, of which it has been said that the stoppage of exports would have almost as bad an effect as the total cutting off of supplies of raw material.

The climax of such a national disaster as the stoppage or the material reduction of our supplies of food and raw materials would of course be widespread unemployment. In whole districts of Lancashire and Yorkshire there might be hardly a wheel turning or a factory hand at work. Mr Crammond agrees with Sir Robert Giffen as to the gravity of the unemployment danger.

> There is only too much ground [he thinks] to fear that a maritime war would aggravate the problem of unemployment to such an acute stage as to seriously embarrass the Government.

It is indeed rather ominous for us that the only two British statisticians who have tried to make what Lord Morley would call "a systematic survey of the facts," bearing on the probable effects of a European war in which this country may be involved, both arrive at decidedly pessimist conclusions. Mr Crammond, in 1910, was even more pessimist than Sir Robert

Giffen had been in 1907. The general impression he has derived

from a study of the question of the supply of credit in time of war is one of utter hopelessness as to the possibility of conducting our vast business in times of peace on such lines as would ensure the avoidance of a commercial catastrophe on the outbreak of a great war.

In sheer despair he falls back on the "Great Illusion" theory of Mr Norman Angell, or something like it.

It must, however, be borne in mind that financial considerations constitute a safeguard for the preservation of peace, the importance of which it is impossible to exaggerate. If our own credit system were threatened with collapse, it is certain that the credit systems of all countries dependent upon it—that is to say, of all the great countries of the world—would be more or less involved.

This, however, as we have shown in other connections, is a double-edged and therefore a doubly dangerous argument. While on the one hand the dread of precipitating a world-wide financial catastrophe might have a sufficiently deterrent effect on normally constituted governments and diplomatists, there are others so abnormally constituted that they might turn it the wrong way round. They might use it as a rod to hold *in terrorem* over Governments like our own, which are specially vulnerable both as

regards food-supplies and international obligations. If these are the two worst joints in our armour, why should not a diplomatic rival threaten to hit them and to hit hard? To say the least, it would always be a tempting bluff to practise on our Foreign Office.

SUMMARY OF CHAPTER XXII.

Lord Morley's dictum about peace booms and war scares. His ideal Foreign Secretary's ideal foreign policy. How should it be applied to the present international situation, especially to our relations with Germany? German diplomacy in 1911. German Anglophobia. The Social Democrats at the Jena Conference. Semi-official threats of 'The Cologne Gazette.' The outbreak of the Conservative leader, Herr von Heydebrand. 'The Westminster Gazette' on "The Disease of Diplomacy." Does it consider Sir Edward Grey one of "the clumsy players on the European chess-board"? The British public more in the dark than anybody else. How the relative positions of Great Britain and Germany have changed in the past twenty years. The Germanisation of British methods and ideals tends to intensify the rivalry between the two peoples. The nearer they approach each other the more dangerous they seem to become. The coming duel of brain-power, character, intelligence, organisation, and endurance.

MODERN WARS AND WAR TAXES

PART V. WAR FINANCE OF THE FUTURE

CHAPTER XXII. THE GERMAN SPHINX

Lord Morley has laid it down in a well-known biography that peace booms and war scares are simply "the fashionable moods of the hour." In his judgment "they are due to the omission of influential statesmen to keep in their minds a systematic survey of the facts of our national position in relation to Foreign Powers." Since he expressed that philosophical if not very lucid opinion, he has himself joined the ranks of the influential statesmen, and he ought therefore to be able to enlighten us as to the relations which we at present hold with the various Foreign Powers. More particularly, we would like to hear what, "on a systematic survey of the facts," the existing relations between us and the German people ought to be called.

Are we, in the language of influential states-

manship, to consider our two nations friendly or unfriendly? Ought we to treat each other as very distant relatives, or as strangers, or as old friends who have fallen out, or as jealous rivals in love, or as keen competitors in business, as hostile neutrals or benevolent neutrals, as diplomatic belligerents or non-belligerents? Privately there is as much friendship and esteem between the two peoples as ever, but officially we are in an indefinable state of estrangement and mutual bad-humour. We are building Dreadnoughts, making speeches, and writing newspaper articles against each other,—all three proceedings as senseless as they are dangerous. And the longer this friction goes on the more unintelligible it becomes, and the less we know how we stand toward each other.

Whichever may have the best of the Dreadnoughts, the Germans have certainly the worst of the speeches and the editorials. In these matters they are as clumsy as in their up-to-date diplomacy. Why they should be so persistently rude and resentful, unless they deliberately wish to pick a quarrel with us — not immediately, perhaps, but when they feel ready for it —it were hard to say. Why they should see British intrigues at the bottom of every difficulty they get into with other Powers is even more puzzling to us. Their readiness to pick unexpected quarrels and to spring unpleasant surprises, even on their friends, might sufficiently explain their being so often in hot water

without dragging simple-minded John Bull along with them.

In every quarrel they have started during the past five or six years Great Britain has got the first kick and the last, with a good many between. It does not matter whether a Conservative or a Radical Government is in Downing Street, Great Britain is always the "nigger in the fence." Such of us as imagined ourselves to be honest peace-loving people are beginning to think that either we must be hopelessly wicked or that our German critics are uncommonly hard to please. Which is it? Perhaps Lord Morley, who is so deep in the mysteries of influential statesmanship and systematic surveys of foreign relations, can enlighten us. Are we the inveterate and universal disturbers of peace which the lurid imagination of the German Sphinx paints us, or is the Sphinx itself suffering from jaundiced vision?

The progress of the long-drawn-out "conversations" over Morocco was marked by frequent outbreaks of anti-British spleen. Sometimes they issued from the Press, sometimes from the Reichstag, and sometimes from provincial platforms, as if to show that all over Germany we were the one and only scapegoat. When a hitch occurred in the negotiations it was of course our fault. When they took a step forward it was a great moral victory over our malicious designs. When a crisis was reached we were duly warned not to interfere.

When at last the tedious performance did come to an end, we were grimly reminded that our turn was coming soon. This was the pleasant theme of an editorial article in the semi-official 'Cologne Gazette' on the occasion of a false report that a final agreement had been reached by the French and German diplomatists. It appeared at a very critical time—the day after the Bourse panic in Berlin, and the second day of the Social Democratic Congress at Jena.

> The experience of recent years has shown that Russia is not to be drawn into external adventures, and is entirely taken up with the internal development of her immense Empire. If now France also, as we hope and wish, finds in her Morocco undertaking the satisfaction she desires, we shall at last stand face to face with our English friends alone. And that is, indeed, an end worth striving for; for experience has shown that when she stands alone England is much more peaceably inclined, and much easier to handle, so that it may be regarded as fairly probable that in the next decade the German people will be rewarded by a long period of peace and prosperity for the many severe trials which their patience and patriotism have, with stern self-denial, victoriously overcome.

This is the German Sphinx in a triumphal mood. But it also has its despondent and pessimist moments. Then we hear nothing about many severe trials victoriously overcome. A quite opposite tone of disgust and disappointment takes its place, as, for example, in the anti-English outburst of the Conservative leader Herr

von Heydebrand at Breslau. This fervid Pan-German began by deploring the poor result of the negotiations. He declared that all German patriots were filled with bitterness when they saw what had become of German prestige. They had to recognise that France and England had succeeded in attaining the object of their pact. The last independent Empire in Africa had passed into the hands of France, and the increase of French prestige in the world was undeniable. But in this sad hour one small consolation remained to Herr von Heydebrand. "The question," he said, "might have yet again to be decided by a trial of strength." Seeing that it has been reopened twice or three times already, the Sphinx apparently never means to be done with it.

Herr von Heydebrand proceeded to apportion blame for the diplomatic fiasco with the same impartiality as had marked his lamentation over it. Of course he had not a word to say against France. No German ever has in these days. But England was trounced for both.

> Was it right [he asked] to send the ship to Agadir? You know with what jubilation the nation greeted this step. But it left a bitter taste by giving occasion for an act of colossal insolence on the part of the English Government towards Germany. When even a Liberal Ministry, which in England counts as a less bellicose Ministry, could actually hold its fist under our nose and say, "It is I alone who have to rule the world," it becomes for us, who have 1870 behind us, extremely painful. Whether England's action was to be foreseen

or not I do not know. But if it were possible, the German nation ought to have been spared such an affront as that. The hour is for our nation so serious that I cannot regard it as a patriotic duty to degrade our Government before the whole world. That is not the way of a Conservative, and it is not the way of great and earnest nations. Personally—and perhaps I have the right to speak here for the Conservative party—I now say that at no stage have we left the Government in doubt that if they considered it their duty to take a firm stand for the honour and power of the German Empire, the Conservative party would stand as one man behind them. The Government may rest assured that there is not a man in Germany but knows what is demanded by the power, the liberty, and the economic interests of Germany.

All the sense that a plain reader will be able to make out of this tirade is that one of the "influential statesmen" of the German Empire, who are responsible for systematic surveys of the relations of the Foreign Powers, is in a very ugly humour. He is consumed with a double-edged wrath, first against England and secondly against his own Government. He charges English Ministers, whom he had hitherto considered peaceful and friendly to Germany, with an act of "colossal insolence." But he does not give us the slightest indication what the act of colossal insolence was. Nor does he seem to realise that if his accusation be groundless, as in all probability it is, he himself is committing a gross insolence and a gross indiscretion at the same time.

If all this were merely a resuscitation of the flap-

doodle anti-British bunkum with which American politicians of the baser sort used to enliven their electioneering, it might pass as such. But there is a difference between Western stump oratory and German invective. The former meant nothing, while the latter may mean a great deal. Unfortunately, we cannot make out in this case what it does mean. Herr von Heydebrand rings the changes on German "honour," "power," "liberty," and "economic interests," but pray what have we done to offend any of these sacred prerogatives?

Wittingly we cannot have offended or insulted any of them, for they have never been explained to us. They are more cryptic than the Monroe doctrine, because although an authoritative definition of that doctrine has never yet been vouchsafed to the world, we can gather something of its object from the many applications that have been made of it in the past half century. But the German shibboleths which Herr von Heydebrand hurls at us are entirely novel missiles. Let him define the German honour, power, liberty, and economic interests which we have been "insolently" but unconsciously outraging.

The German Conservative leader may be the reverse of a humorous man himself, but he can excite humour in other people. There was quite an outburst of it—not intentional but unconscious humour—in the comments of the Anglo-German press over his outburst. 'The Westminster

Gazette,' which is supposed to reflect the innermost soul of the Asquith Cabinet, treated it as the latest symptom of "the disease of diplomacy," the manifestations of which during the past six years "have been such that a child ought to be ashamed of them." It found comfort, however, in the thought that

> Anglo-German relations are only a part of this widespread diplomatic disease. As one reads in reviews and newspapers the innumerable articles by experts professing to divine the motives and forecast the next moves of the skilful—or rather the clumsy—players on the European chess-board, the feeling comes over one that it is all utterly unrelated to the realities of life and the real interests of the players.

The realities of life, according to 'The Westminister Gazette,' are of course exports and imports. "We are each other's best customers," it plaintively adds, "and yet for years we have been heplessly entangled in the network of European diplomacy." That is exactly what Richard Cobden would have said about it had he been alive. He might have used more forcible language, and his tone might not have been quite so despondent as that of 'The Westminster Gazette,' but we fear that it would have been equally wasted on patriotic Germans like Herr von Heydebrand. Pan-Germans of his type have something more at the back of their minds than exports and imports. They have ideas and emotions in their souls which are not to be

dispelled by deputations of English and Welsh hot gospellers eager to worship any kind of military power so long as it is not that of their own country.

It would be interesting to learn if Sir Edward Grey is included among 'The Westminster Gazette's'

> skilful — or rather clumsy — players on the European chessboard [who] deal not with things but with certain conventional abstractions which have come to be their stock-in-trade, [who] run enormous risks for points in a game which no one understands—for theories like the balance of power which have been obsolete for generations, for ideas of prestige which conflict with commonsense, and for combinations which have long been undermined by the force of facts.

Is our Foreign Secretary one of the players in this absurd game of make-believe, or has he thrown it up in disgust, leaving England's chair at the green table vacant?

What, we would dearly like to know, does Lord Morley think of it all? Where now are his influential statesmen who keep in their minds a systematic survey of the facts of our national position in relation to Foreign Powers? The facts of the Anglo-German situation as they present themselves to Herr von Heydebrand and to the luminous mind of Lord Morley are doubtless very different. They must be the strongest possible contrast to each other, and, sad to relate, it is absolutely impossible for ordinary people to

make a guess as to which may be right or which may be wrong.

Diplomatists are playing the sphinx all round, and even now we know less about our own particular share in that Morocco business than about the French and German "conversations" themselves. German politicians, not only of Herr von Heydebrand's stamp but of many other types and classes, rub it into us that Germany has somehow been deeply wounded in her honour, her power, her liberty, and her economic interests. They also impress on us their surprise at having received this deadly affront from a Liberal Ministry. In our amazement we can only ask, What does it all mean?

One interpretation of the Von Heydebrand outbreaks against British diplomacy is that the game which 'The Westminster Gazette' considers so conventional and obsolete may be to the Germans intensely real and serious. That they have set their hearts on the industrial and financial as well as on the naval and military leadership of Europe is abundantly evident. The following is a sample of how German rivalry is concentrated on the one Power which still keeps ahead of them:—

> In both directions England is in danger, in the course of time, of being overtaken by other countries. Even to-day the Budget figures of the confederated States and of the German Empire are higher than those of Great Britain. The total receipts of the German Empire and

of the confederated States amounted in 1910 to 7,176,000,000 marks, whilst in Great Britain the total sum was only 4,052,000,000 marks. The direct taxes per head in 1907 in Great Britain amounted to 45.6 marks, compared with only 24.8 marks in Germany. Duties on articles of consumption amounted to 31.7 marks in Great Britain and 19.6 marks in Germany; dues, 15.8 marks in Great Britain and 5 marks only in Germany. This situation of affairs is due to the difference between the English Liberal financial policy and that of State-Socialism in Germany. Nearly half of the revenue in Germany provided by the confederated States is derived from the railways and Crown lands, whilst England is obliged to depend entirely on her Customs and taxes. Added to this, she has to pay almost entirely alone the expenses incurred in protecting and strengthening her colonies.

Twenty years ago, or even less, the average Englishman might have scoffed at the idea of comparing himself with Germans in any of these respects. He is now much less self-complacent regarding them. His air of insular superiority is beginning to sit less easily on him. Slowly and reluctantly, perhaps, but none the less surely, he is discovering strong points in his German cousins which he had never suspected before. His first concession was the efficiency of German education, and he made that the more readily because in his heart he has little love for scientific education, or science of any kind. His opinion of the Germans rose considerably after Sadowa, and he gave them full credit for the skilful use they made of the needle-gun. In

1870 he had to make another great concession, and to recognise the new German Empire as a great military Power.

But that is about as far as the average Englishman has got in his German education. As to the wonderful development of the new Empire commercially, industrially, and financially, he is still very hazy. The Dreadnought competition he has caught on to quickly enough, for exceptional reasons. It is a concrete case which can be put before him in figures and rubbed into him by his daily papers. Besides, the navy is his last and dearest object of national pride. He is peculiarly sensitive to any reflection on it, and still more to any danger to its prestige. The German Dreadnoughts have brought home to him, as nothing else in the world could have done, that his special position in the scheme of things is threatened. On this point he is thoroughly wakened up, and is not likely to go to sleep again until the question of the rival Dreadnoughts has been definitely settled one way or another.

But even yet his German education is not completed. The Dreadnoughts themselves are not the whole issue. They are only part of it—a vital part, doubtless, but not the most vital. The hardest and most crucial part of the struggle has already begun, and it may be virtually decided without the firing of a gun. It will be a contest of manhood: brain power, intelligence, organisa-

tion, and endurance. The average Englishman does not yet see the question in that light, though it is by far the most serious one. He cannot realise what discipline, method, and clear thinking have done and are doing for the people who challenge his supremacy not only on the sea but on land — in the mart, the factory, and the Bourse.

Very probably he will admit the personal qualities of the Germans, but will console himself with the thought that we are still well ahead of them in wealth and financial resources. We have, however, undergone so many disillusionments of late, and suffered so many rude awakenings, that it is no longer safe to take anything for granted. Our fondest illusions can be no longer trusted. They may deceive us and leave us in the lurch at the most critical moments. Even in respect of accumulated wealth, the comparison between the two countries may not even now be so very unequal as we imagine. At all events it is worth making, if only for historical interest. But perchance a much deeper significance may be found in it. There may be lessons and warnings for us which, if taken in time, may save us from disaster and humiliation later on.

SUMMARY OF CHAPTER XXIII.

Cobden's graphic description of the war scares of the middle of the nineteenth century. Palmerston and Cobden, the two extremes. The very mixed peace party of 1854. Cobden's persistent refusal to test his peace doctrines in practice. His squeamish regard for his own consistency. Sir Robert Peel's remarkable protest against bloated armaments. Pitt, previous to 1793, a strenuous promoter of peace. Cobden's disparagement of his own countrymen and his partiality for foreigners. The non-intervention doctrine of the Manchester School mean and materialistic. The mischievous Quaker mission to the Emperor Nicholas during the Crimean negotiations. Cobden's antipathy to the "ducal class" landowners and the "money power." His dilemma over Kossuth and the Hungarian refugees. Lord Palmerston blamed for "refusing to meddle" in the Russian-Hungarian quarrel. Cobden denounced foreign loans and the funding system as "injurious to mankind." He objected to the exportation of British capital, and on this point was directly at variance with the present Radical leaders. There were reasonable grounds for the war scares of that day, though they may have been exaggerated. The then Government would have been running a dangerous risk if it had entirely disregarded the invasion scares. The Duke of Wellington's dictum that a hostile expedition could be landed on almost any part of the south coast of England. Diversity of opinion among the political leaders of the day on national defence.

MODERN WARS AND WAR TAXES

PART VI. THE ANTI-MILITARISTS

CHAPTER XXIII. MR COBDEN'S THREE PANICS

It is singular that the most concise and graphic picture of the war scares of the middle of the nineteenth century should have been written by one of the leaders of the peace party, but so it is. Mr Cobden's now forgotten pamphlet, 'The Three Panics,' originally published in 1862 and reissued by the Cobden Club in 1884, exhibits the principal actors in these exciting episodes with lifelike vigour. At the head of them is Mr Cobden's special *bête noire*, Lord Palmerston, who typified the John Bull of the period as faithfully as Mr Cobden himself represented the new Manchester School.

In these two statesmen—for statesmen they both were, though far as the poles asunder—we have the two extremes of what would now be called Jingoism and Little Englandism re-

spectively. The very fact of their being extreme men argues that neither of them was likely to be altogether right. Each of them looked at the crisis they had to deal with too exclusively from his own point of view. Lord Palmerston could see nothing but the Foreign Office side of diplomatic and military questions, while Cobden shut his eyes to everything but the commercial side. He was not, however, a peace-at-any-price man, any more than Palmerston was a mere swashbuckler. Lord Morley, his biographer, quotes from one of his letters a distinct disavowal of the Quaker position held by his friend and ally, John Bright. He favoured what he called a nucleus army, which could be expanded when necessary. In another letter he thus described the diverse elements in the Peace party:—

> There are in our ranks those who oppose all war, even in self-defence; those who do not go quite so far, and yet oppose war on religious grounds, except in self-defence; and there are those who, from political, economical, and financial considerations, are not only advocates of peace, but also of a diminution of our costly peace establishments. Amongst the latter class I confess I rank myself.

Not only did Cobden adopt very much lower moral ground than most of his associates in the war against war, but he was much less consistent in his methods. He remained throughout a critic pure and simple, and invariably a one-sided critic.

He would never accept any responsibility for putting his opinions in practice. Three times, at least, he had tempting offers of office which would have afforded the best possible opportunities of acting up to his theories, but he declined them all. From a squeamish regard for his "consistency," which meant really his reputation, he refused to work either with Lord John Russell, or Lord Derby, or Lord Palmerston. He preferred to go through life and to descend to posterity as a theorist and a critic.

This fact must detract greatly from the value of his judgments on practical questions of statesmanship, especially questions of foreign policy and questions of peace or war. His friend, John Bright, was more logical as well as more consistent. His Quaker blood and training made him detest war as a crime, and he always denounced it as such. The cost of it and its economic consequences hardly seemed to him worth mentioning beside the iniquitous thing itself. To Cobden war was not a crime in itself, but it was a criminal waste of national resources. Even on this lower ground, however, he was inferior to Sir Robert Peel, who had led the way in condemning international rivalry in armaments. Peel attacked it as an obstacle to his new policy of fiscal reform, and to the last day of his official life he lived up to his creed. When he returned to office in 1842 he found the naval estimates at £6,818,000. In 1844 they were reduced

to £6,250,000. War scares began to tell again in 1846, and the estimates rose once more to £7,803,000.

But for his premature death Peel would doubtless have made an honest attempt to give effect to his protest of 1841 against bloated armaments. It was made in office, and under circumstances which left no doubt of its sincerity. The words themselves have not only a sincere but an impassioned ring.

> Is not the time come [he said] when the powerful countries of Europe should reduce those military armaments which they have so sedulously raised? Is not the time come when they should be prepared to declare that there is no use in such overgrown establishments? What is the advantage of one Power greatly increasing its army and navy? Does it not see that other Powers will follow its example? The consequence of this must be that no increase of relative strength will accrue to any one Power, but there must be a universal consumption of the resources of every country in military preparations. They are, in fact, depriving peace of half its advantages, and anticipating the energies of war whenever they may be required.

Peel was a Minister of peace in the same statesmanlike sense that the younger Pitt had been. The latter, according to his latest and most thorough biographer, Dr Holland Rose, withstood till the last moment the innumerable forces which were driving this country into a collision which he abhorred with the French Revolution. His conduct was infinitely superior to that of

Fox, who, after war had become inevitable, rushed in to declaim against it, and not only so, but to thwart it by all the jealous devices at his command, open and secret, legitimate and illegitimate.

Cobden took his cue as an anti-militarist from Peel, whom he warmly admired, and in this case was proud to follow. They were men of kindred minds, and were always drawing nearer to each other. But one vital difference can be traced between them. Peel never shirked official responsibility, while Cobden did. Peel, speaking as a Minister, declared it to be impossible to provide against every possible risk to which a country might be exposed. Cobden, echoing this sentiment as a private and irresponsible member of Parliament, was always "for taking chances," as the Americans have it. He accused his own countrymen of being the chief disturbers of the peace of the world, the greatest war-makers as well as the worst scare-mongers. He told them, none too politely, that if they would only keep quiet and not interfere with other people's affairs, all would be well.

This was the meanest and most materialistic view that could possibly be taken of the most solemn issue in national life. Nevertheless it had at one time an immense vogue. For years it was the gospel of the Nonconformist middle class, and some of them possibly adhere to it still. But the bulk of the British people have

long left behind them the Manchester doctrine that the chief aim of humanity should be to multiply factories, exploit cheap labour, and produce the largest possible output of exportable goods. In all his speeches about disarmament, non-intervention, and naval retrenchment, Cobden rings the changes on the wastefulness of war expenditure, and the much better use which Lancashire could make of the money.

Not only did Cobden systematically shirk practical responsibility for his anti-military views, but he had at least once to reproach himself with having stultified them by an unfortunate vote in the House of Commons. He and his friends joined with the Whigs in 1852 to turn out the Derby Ministry. They thus prepared the way for the Coalition Cabinet of Lord Aberdeen, which, through sheer incapacity and indecision, drifted into war with Russia. When war had been declared Cobden did public penance for his mistake. In one of the Crimean debates he said—

> I look back with regret on the vote which changed Lord Derby's Government. I regret the result of that action, for it has cost the country a hundred millions of treasure, and between thirty and forty thousand good lives.

Another incident in the abortive negotiations which preceded the Crimean war he might have also apologised for at the same time. That was his friend Mr Sturge's Quaker mission to St

Petersburg, which so fatally misled the Emperor Nicholas as to British public opinion regarding the war. Though Cobden took no public part in the mission or in the arrangements for it, its promoters were his personal friends, and Mr Sturge was one of his most active correspondents. It apparently never occurred to him that there were grave mistakes made at that time by the opponents of the war, as well as by the Ministers who had to accept the official responsibility for it. He continued to criticise and to denounce it as if it had been an act of pure folly and wickedness on their part to which no one else had contributed.

Another characteristic accusation which he frequently launched at the war party was that it was being driven into disastrous courses by "a ruling class which has reaped all the honours and emoluments, while the nation inherits the burdens and responsibilities." He waxed very wroth with financiers who dared to advance money to any foreign Power of which he did not approve. When his own prejudices were ruffled he could hit back not only hard but wildly. Next to the "ducal class" and the "privileged landowners" he detested the money power. Wealth that had not been made in factories or American railways was anathema to him.

When Kossuth and his fellow refugees arrived in England, Cobden became one of their warmest

supporters. For their sake he was sorely tempted to violate his most sacred doctrine of non-intervention. Lord Morley had need of all his literary tact in describing the awkward situation thus created.

> Cobden [he says] shared to the full the virtuous indignation with which his countrymen had watched these evil transactions. (The suppression of the Hungarian rebellion by Russian troops, and the subsequent demand of the Russian and Austrian Governments for the surrender of the refugees who had found shelter in Turkey.) At the same time, he did not fail to see the danger of this just sympathy with a good cause turning into an irresistible cry for armed intervention on behalf of Hungarian independence and its champions. It must be owned that Cobden's position was a very delicate one.

Indeed it was, and Mr Cobden did not escape from it without some sacrifice of his much loved consistency. At the indignation meeting held by the friends of the Hungarian patriots at the London Tavern, he drew rather Jesuitical distinctions between right and wrong kinds of intervention. This was an occasion when he could have forgiven his bugbear Lord Palmerston for striking in. But, as Lord Morley ironically observes, "Palmerston forgot to meddle," and Cobden had for once in his life to rebuke the arch-intermeddler for holding both his hand and his tongue! The situation was not merely delicate but comical. Cobden rose to it, however, and in his speech at the London Tavern went so far as

to express his deliberate conviction that "if Lord Palmerston had made a simple verbal protest in energetic terms, Russia would never have invaded Hungary."

This is a little too much, however, for his adoring biographer. Lord Morley hastens to explain that "Cobden was too practical to dream that regard for purely moral opinion could be trusted to check the overbearing impulse of powerful selfish interests." Some philosophical moralising follows, which may be commended to the attention of the Great Illusionists, official and non-official—

> Wars, however, constantly arise, not from the irreconcilable clashing of great interests of this kind, but from mismanaged trifles. This was what he (Cobden) had maintained in his argument for arbitration. The great and unavoiduble occasions, he said, are few.

That is a very elastic and convenient formula for solving the peace-at-any-price dilemma. Give a public man the right to declare an international dispute to be trifling or important as it may suit his own theories, and he will of course be always in the right. But he would be a bolder man and more worthy of respect if he put his theories to the test and took the consequences. This is the rock on which all the anti-militarists make shipwreck. They always know what ought to have been done by the Ministers or the political parties they criticise, but the alternative course they recommend is generally something that has never

been tried, and that no responsible statesman is ever likely to try.

Cobden, the life-long non-interventionist, rebuking Palmerston, the arch-intermeddler, for not making "a simple verbal protest in energetic terms" against the Russian invasion of Hungary, is the climax of Gilbertian foreign politics. Let us hope that "the old reprobate of the Foreign Office," as he was frequently styled by the more vehement advocates of non-intervention in their confidential moments, did not chuckle too openly at the discomfiture of his Quaker censors. As for them, they turned their futile scorn against the money-lenders, who at this delicate juncture undertook to do some profitable financing for the enemies of the Magyars. It is not surprising to read in Cobden's biography that

> at this time he warmly took up what seemed a most effective way of checking war, and the preparations for war, on the part of the two Powers whose tyrannical action had inflamed the resentment of his countrymen. With singular fire he entered on a crusade against the practice of lending, first to Austria and then to Russia, the great sums of money which were, under various disguises and pretexts, borrowed to repay the cost of the late oppressive war. In October he delivered a powerful speech against the Austrian loan of seven millions. In the following January he convened a meeting at which he denounced, with still more unsparing invective, the loan of five-and-a-half millions which was asked for Russia. He insisted that the investment was unsound; that the funding system is injurious to mankind and unjust in principle; that the exportation of capital

to be destroyed and lost in the bottomless abyss of foreign wars is contrary to the principles of political economy.

Probably there may be men still alive who listened to this invective of Cobden's against the exportation of British capital, and the same men may have heard the present Prime Minister praising the exportation of capital as a profitable business and a sign of national prosperity. But samples enough have been given of the non-intervention rhetoric of sixty years ago to show the reader how narrow, shallow, and futile it was. The money-lending which Cobden denounced in 1848 proved to be the germ of an international system of finance which his successors now regard with reverence as a safeguard of the world's peace. On the other hand, his non-intervention gospel of the future is now as dead as Queen Anne. Few modern democrats have ever heard of it.

An open-minded study of the three panics tersely criticised by Mr Cobden will lead a present-day reader to the conclusion that no general rule or principle can be laid down for ensuring a country against all the possible risks of war. These risks are of such infinite variety, and they change so quickly both in character and circumstances, that the same method of precaution can never be applied twice. Old risks pass away and new ones arise. Political conditions vary, international combinations dissolve and are reformed, national sentiment is alternately hot

and cold, military science is continually advancing, and the statesman has to keep abreast of these multitudinous changes.

There are two classes of statesmen in England, as in most other countries. One can see very clearly things under his nose, and form very sensible but superficial opinions about them. He will not, however, look half an inch beyond his nose, either right or left, before or behind. This was Mr Cobden's favourite method of argument. He had at his finger-ends all the British and French statistics which the alarmists used for working up their panics. With indefatigable industry he checked them all by official records, and succeeded in proving many of them to be exaggerated, if not actually false. He demonstrated over and over again that the alleged increases in the French navy and the tremendous preparations said to be making for an invasion of England were largely apocryphal.

As a matter of fact they were, but that did not put the alarmists altogether out of court. There may have been then, and there actually was, danger of trouble with France, which British Ministers would have been gravely lacking in their duty if they had failed to take note of. It was very easy for Cobden, after the crisis had passed, to ridicule the alarm it had caused and the costly precautions which, after all, proved unnecessary. He as a private member of Parliament had practically no responsibility in the

matter, whereas the Government had. So also had all the military departments and every responsible officer of the Crown. The standard by which they had to be judged was not whether the French navy had during the crisis gained materially on the British navy, but whether there had been reasonable grounds for believing that it was gaining or was about to gain.

It will not be at all difficult to prove, both from French and British sources, that such reasonable grounds did exist. Lord Palmerston and his followers may have magnified them unduly and made too much of them, but that was a less heinous offence than Cobden's would have been if, being in Palmerston's place, he had pooh-poohed all the rumours about French designs, and, by neglecting to take any counter-steps, had landed the country in a mess like what France herself got into in 1870. Nine times out of ten war scares end in smoke. They either prove to have been false alarms, or they serve their purpose and avert the threatened peril. But nothing could be more foolish and illogical than to argue, as Cobden did in his 'Three Panics' and in all his speeches at this time, that war scares are mere nightmares to which no sensible business man would pay any attention.

The so-called war party of Palmerston's day had before them some very serious and important facts bearing on our national defence.

First, there was the sharp passage-at-arms

which had taken place in 1840 with the Thiers-Guizot Cabinet over Syria. Mr Cobden himself refers to this as having "caused a deep popular irritation and sense of humiliation throughout the French nation." He also pictured Palmerston and Thiers as "two rival statesmen who wielded with consummate skill the combative pride and the soaring vanity of these great nations." Observe his ready sympathy with French humiliation, and his inability to see in national differences any higher motive than "combative pride and soaring vanity."

Second, the Napoleonic *régime* had in a very sensational manner been revived in France. The *coup d'état* of December 1852 had reopened what was fondly supposed to be a closed chapter in the history of Europe. As if to accentuate its ominous significance, it had followed close on the funeral of the Duke of Wellington. The new Napoleon was known to be a strange compound of dreamy enthusiast and daring adventurer. That he believed in the Napoleonic legend and regarded himself as its inheritor was set out in his early writings. These were quoted in the House of Commons by Mr Horsman in what Mr Cobden sneeringly styles his great panic speech of the 29th July 1859.

> They afforded [said Mr Horsman] the key to what would otherwise be a mystery, and enabled people to interpret what would otherwise be unintelligible, namely, that those vast preparations, the extension of the navy,

the fortification of the coast, the enlargement and increase in the number of transports, and the conscription for the marine, all indicated a gigantic enterprise to be undertaken some day or another against a gigantic naval Power, and that Power needed not be named.

Granting that as things turned out the Napoleonic bugbear of 1859 was overdone, that does not prove it to have been a negligible quantity in the calculations of the British Cabinet or the deliberations of the British Parliament. Napoleon the Third's revolutionary energies were soon turned in another direction. He concluded that Austria would be safer game to fly at than the islands across the Channel. But who knows how much our ridiculed war scares may have had to do with his ultimate decision?

Third, the greatest military authority of that day, the Duke of Wellington, had given his *imprimatur* to the alarm raised about the defenceless state of our coasts. A memorandum on coast defence, drawn up by Sir John Burgoyne, having been submitted to him, he wrote a confidential letter which got into print, much to his disgust. The fact of its having been intended for a brother-officer and not for the public must have deepened the impression which in any case such authoritative opinions were calculated to produce. It ran thus:—

I have examined and reconnoitered over and over again the whole coast from the North Foreland by Dover, Folkestone, Beachy Head, Brighton, Arundel,

to Selsey Bill near Portsmouth, and I say that, except immediately under the fire of Dover Castle, there is not a spot on the coast on which infantry might not be thrown on shore at any time of the tide, with any wind and in any weather, and from which such a body of infantry so thrown on shore would not find within a distance of five miles a road into the interior of the country through the cliffs, practicable for the march of a body of troops.

Mr Cobden skips lightly over this formidable obstacle to his views with the polite suggestion that "the entire production gives painful evidence of enfeebled powers." He sets against it his own opinion, based on occasional visits to Eastbourne and Hastings, that "for half the year no prudent mariner brings his vessel within several miles of that coast." Strange to say, the *ipse dixit* of Mr Cobden did not utterly and finally demolish the verdict of the Duke of Wellington, and there are military authorities still alive who side with the Duke as to the possibility of foreign troops being landed on almost any part of our south coast. They have even been confirmed in this heretical opinion by very recent experiments of a similar kind—the landing of the Italian troops in Tripoli, for example. It is to be feared, or rather hoped, that the Duke of Wellington's letter to Sir John Burgoyne will long outlive Mr Cobden's self-complacent criticism.

A most interesting feature of Mr Cobden's pamphlet is the revelation it makes of utter confusion of mind among the political leaders of the day.

The alarmists and scaremongers were not, as might have been expected, "all wicked Tories." There were, in fact, more of them on the Whig than on the Tory side, but it seems to have been a very open question all round. Lord Palmerston was, of course, the principal champion of increased armaments. He had influence enough in the Cabinet to induce Lord John Russell, the Chancellor of the Exchequer, to agree to an immediate reorganisation of the militia. Lord John in his next budget speech proposed to add 5d. in the £ to the income-tax to cover the expense, but the House of Commons declined to be scared to that extent. It threw out the budget, and with it Lord John's Government.

With the exception of the Iron Duke, all the Tory leaders that Cobden had to do with were anti-alarmists. Sir Robert Peel's protest against unlimited rivalry in armaments has been already quoted. Lord Derby took a very similar line in his Ministry of 1852, and his Chancellor of the Exchequer, Mr Disraeli, had so far been always "on the side of the angels." When the latter was *in extremis* over his budget he asked one of the leaders of the Free Trade party to call upon him—evidently Cobden, for it is he who tells the story. Disraeli said to his visitor: "Protection is done with. That quarrel is at an end. If you turn us out you will only have the Whigs in. And what have the Whigs done for you? They will never do anything for you."

Surely one of the most original overtures ever made by one political leader to another, and if Cobden had been gifted with a little more imagination he would have seen the splendid opening it offered him. Unfortunately, he had neither humour nor imagination, and the overture was declined. The Derby Cabinet went out, the Aberdeen Cabinet came in, and the Crimean War broke out in little more than a year. Cobden's biographer closes this strange chapter with the pathetic remark that "the time soon came when Cobden was driven to say that he never repented so much of a vote in his life as of that which he had now just given." Thus peacemakers, when prejudiced, unreasonable, and one-sided, often defeat their own ends.

SUMMARY OF CHAPTER XXIV.

Cosmopolitanism a nebulous and illusive craze. Also variable and erratic. The philosophical cosmopolitanism of Bentham and the Mills. The Manchester cosmopolitanism grafted on it by the Corn Law Repealers. Mr Gladstone's financial cosmopolitanism. All opposed to the nationalist sentiments of the nineteenth century. Neither has this form of cosmopolitanism any affinity with the new *weltpolitik*. Europe of to-day is in sentiment and situation a complete contrast to the Europe of seventy years ago. Cobden's Canada and the Canada of 1911. Cobden's United States militia and the United States armaments of 1911. Lord Morley's receipt for preventing pacific booms and war scares. Why does he not utilise his present admirable opportunity of applying it? The Socialists and their anti-war speeches, what are they really worth? The Social Democratic Congress at Jena in September 1911. Their regulation protest against war. Herr Bebel's alarmist speech. Were the Socialist leaders appealed to for help to allay the September panic? The dilemma of the German Socialists. In the event of war would they be Germans first and Socialists afterwards, or *vice versâ?* The Empire has a stronger hold on them than the Socialist party has.

MODERN WARS AND WAR TAXES

PART VI. THE ANTI-MILITARISTS

CHAPTER XXIV. MANCHESTER COSMOPOLITANS AND CLASS WAR SOCIALISTS

We have left to the last certain moral forces professedly in favour of peace, but, generally speaking, unfortunate in their methods of promoting it. They are nebulous and illusive, emotional and erratic, sometimes philosophical and at other times hysterical. They have no method or continuity. One day their apostles work themselves up to fever heat, and the next they are exhausted volcanoes. Every now and then they are preached as a new principle of civilisation, but when put to a practical test they turn out to be barren fancies. In a word, they are not creeds or policies but passing crazes.

"Cosmopolitanism" is one of these intermittent crazes. It is caught up now by one class of society and now by another. Its exploiters each in turn makes his own use of it, and if they could

be all brought together they would prove to be a motley crew. The earliest type of cosmopolitan was the free-trader of the nineteenth century, and the best portrait of him will be found in the biographies of Richard Cobden. Cobden's own speeches, and still more his letters, bristle with it. He pushed to its farthest possible limit the free trade doctrine that countries are simply so many markets where enterprising manufacturers are to buy in the cheapest and sell in the dearest. To him nations were mere geographical expressions. Patriotism was a phrase diligently used by the landed interest and the military profession to keep taxpayers quiet under the burden of bloated armaments.

Cobden declaimed against the military incubus, as he considered it, even more fiercely than he had denounced the Corn Laws. A larger part of his public life was spent in tilting vainly at military windmills than was taken up with the anti-Corn Law crusade. He failed as completely in the one case as he had succeeded in the other. All his attacks on Lord Palmerston and the champions of national defence were fruitless. They are as dead to-day as Mr Gladstone's retrenchment budgets, and the world has as completely forgotten them. Several reasons for this may be found in Cobden himself, and others in the political evolution which the nation has since undergone. His weak point was cosmopolitanism as opposed to the then fashionable craze in favour of nation-

alities. On this point he was as much out of harmony with his age and his country as he was in harmony with the commercial spirit of Lancashire.

The nineteenth century was before all things nationalist. It hoisted the flag of oppressed nationalities in 1848, and half a dozen moribund nations sprung from their ancient ashes to rally round it. Greece, Belgium, Holland, Hungary, Italy, Roumania, Bulgaria, Servia, all came into their own again. They ceased to be conquered provinces and resumed their place among the nations of Europe.

Alongside of this national revival proceeded the cosmopolitan development which was its very opposite. While nationalism was a great historical and political awakening of the masses, cosmopolitanism was a creation of philosophical Radicals. Its original inventors were Bentham, the Mills, Molesworth, *et hoc genus omne.* They elaborated it and reduced it to popular language. Cobden and his associates laid hold of it and tried to translate it into popular politics. It fitted exactly into their free trade propaganda, and the two helped each other materially. That both of them were absolute and irrefragable scientific truths Cobden speedily satisfied himself, and for the rest of his life he was their chief apostle. In the ultimate triumph of both he believed implicitly, and their condition to-day would be a double grief to him.

It may be questioned whether the free trade or the cosmopolitanism of 1911 would give him the greater shock. Both of them would seem to him to have passed into wrong hands. His free trade policy, which had been chiefly intended to ensure to the Lancashire cotton mills a permanent supply of cheap because cheaply fed labour, is now being used by labour organisations for the sole benefit of labour. His cosmopolitanism has degenerated into the latest, wildest, and most truculent type of socialism. It advocates the abolition of national boundaries, not for the diffusion of free trade but in order to facilitate the war of labour against capital.

Neither in the old nor in the new cosmopolitanism is there any real consciousness of what the Germans call "world politics." Both are conspicuously lacking in appreciation of the great international movements which may be going to give a new direction to the current of history. Instead of being broader and larger than the national patriotism which they aspire to supersede, they are smaller and narrower. The British cosmopolitanism of Cobden's time was insular, sectarian, middle class. The cosmopolitanism of Bebel, Hervé, Jaurés, and Keir Hardie is factious-anarchist-proletarian. Moreover, if its ultimate success could be conceived—and that is difficult indeed—it would by its own admission only substitute one kind of war for another.

This year of grace nineteen hundred and eleven

has been in all conscience an eventful year, but not one of its most sensational events would have had much importance in the opinion of Cobdenite cosmopolitans. Cobden himself would have sneered at the Imperial Conference even more rudely than his disciples of the Cobden Club did. He would have lectured the Italian Government on the folly of coveting so many square miles of desert in Tripoli. He would have covered with ridicule the tortuous methods of German diplomacy. Such diplomacy, in fact, would have been incomprehensible to the simple-minded Radicals and the one-ideaed free-traders of seventy years ago. When the Berlin press counts up the supposed gains of Germany in the Morocco "conversations," there is hardly one that Cobden or any other cosmopolitan of his day would have considered worth a thought. And yet two of the leading military Powers of Europe have been within an ace of coming to blows over them.

This shows how completely not only the political and industrial face of Europe, but the thoughts and sentiments of the people, have altered in the past seventy years. Many causes and interests which were deemed sacred then are out of fashion now. Many things which were insignificant and negligible then are highly rated now. It is, in short, a different world that the second half of the nineteenth century has created for us—a wider and fuller world, and one which demands larger standards of measurement.

The pettiness and narrowness of the Cobden type of cosmopolitanism shines through its colonial policy as well as through its foreign policy—or rather no policy. Just now, when the Dominion of Canada is rejoicing over the greatest electoral victory it ever won for the British Empire, that notable event may be opportunely contrasted with Cobden's forecast of the future of North America as a whole. In 1849 he argued that Canada was no more to us than the United States, if so much—that it was not better worth garrisoning, defending, and spending money upon. To his friend George Combe he wrote on the 5th January 1849 as follows:—

> We have an army as large in Canada and the other North American colonies as that of the United States. Yet, under the *régime* of free trade, Canada is not a whit more ours than is the Great Republic. To keep that force in the North American colonies at the expense of the taxpayers of this country is precisely the same drain upon our resources as if the Government of the United States could levy upon us a contribution for the pay and subsistence of its army. The same may be said of our army in Australia, New Zealand, &c., and if we do not draw in our horns this country, with all its wealth, energy, and resources, will sink under the weight of its extended Empire.

Marvellous to relate, the Empire went on extending in spite of Cobden's pessimist prophecies, and Canada is now its proudest possession. On the other hand, the free trade brotherhood of

nations seems to be as far as ever from realisation. One of the Canadian reciprocitarians who were swept away in the recent electoral landslide humorously remarked that they had not been beaten by reciprocity but by "that man who wrote 'Rule Britannia.'" Undoubtedly "Rule Britannia" had much to do with the crushing defeat of Sir Wilfrid Laurier and President Taft, but it was the last thing that Cobden would have expected to determine a colonial election in the first half of the twentieth century. He had hoped that long before then the American eagle and the Canadian lamb would have lain down together—the lamb, of course, inside the eagle.

Cobden's indirect compliment to the United States on the smallness of their navy in 1849 has had a curious sequel, no more creditable to his foresight than his free trade predictions have proved. If the Government at Washington had maintained a stronger military force the Southern leaders might not have been quite so ready to attack Fort Sumpter, and thus kindle a four years' war. The United States Government of the present day certainly does not invite such compliments as were paid to the American army of sixty years ago. It has a standing army which, if not up to European standards, holds a respectable position among the military forces of the world. And it has something more.

In 1849 the United States navy was practically non-existent. It was still unborn; but to-day it

is second only to our own. 'The Times' of November 1, 1911, contained a description of a grand review of the United States navy in the Hudson river at New York, in which 102 vessels took part. It was a test mobilisation of the Atlantic and Pacific fleets, and an object-lesson for the citizens of New York on the growth of their navy. War-vessels with an aggregate displacement of nearly 700,000 tons were lined up in the river, and the significant fact was impressed upon them that this was double both the number and strength of the fleet which Mr Roosevelt reviewed in Oyster Bay in 1893. Of the twenty-four battleships all but six had been built in the interval, and two more are being laid down every year. Surely the 'cute Americans cannot also be building Dreadnoughts against nightmares. They must be seeing some real dangers ahead.

The Manchester school of cosmopolitans cherished two sanguine illusions, both of which were doomed to signal disappointment. One was that the natural effect of the free trade *régime* would be to knock down all national barriers. The other was that it would tend to bring about a reign of peace and prosperity. Gladstone, then at the outset of his brilliant career in national finance, was no doubt considerably infected with these millennial sentiments. They broke out frequently in his budget speeches, and formed part of the *ignis fatuus* which led him so far astray in the crisis of the Crimean War. He was as

keen a financial cosmopolitan as Cobden was a commercial cosmopolitan. Not a trace remains of either type.

Lord Morley, in describing the jubilee movement of the Great Exhibition year (1851), wrote[1]—

> All this was the fashionable mood of the hour, just as declamatory panic was the mood of the hour after. There was no hypocrisy in either case. The instability arose from the omission of influential statesmen to keep in their minds a systematic survey of the facts of our national position in relation to foreign Powers. There was no real basis consistently present to the Legislature or the public to justify their occasional fits of pacific profession.

In the above extract the "asides" of the biographer happen to be of more immediate interest than the historical facts he is recording. Lord Morley's dictum of forty years ago about peace crazes and war scares being both alike due to "the omission of influential statesmen to keep in their minds a systematic survey of the facts of our national position in relation to Foreign Powers," is doubtless still the foundation of his foreign policy. The precise meaning which he himself attached to the cryptic formula is not for us to say, but if it conveyed any idea at all to the ordinary man it would be that influential statesmen who "keep in their minds a systematic survey," &c., can, if they will, exercise a mesmeric influence of some mysterious kind over popular

[1] Life of Cobden, p. 79.

tumults in favour of peace or war, as the case may be.

Mesmeric statesmen *à la* Morley, capable of "swaying the mob," to put it bluntly, are sorely needed in Europe at the present moment. Lord Morley himself has the best possible opportunity of playing so enviable a *rôle*. Holding one of the highest positions in one of the most peace-loving Cabinets—according to its own account—that ever shed lustre on British politics, universally respected and trusted, he of all men might now do something to prove his favourite doctrine that war fever is a popular disease which can be controlled by influential statesmen. The war fever is raging in several parts of Europe, to say nothing of China. If the old-fashioned statesmen like Lord Palmerston, who put their trust in armaments, were all wrong in their treatment of it, why do not Lord Morley and his colleagues give us a triumphant illustration of their better way? If, as Cobden thought and as Lord Morley suggests in the above extract, moral influence is the best weapon in international disputes, why not use it at once when there is such an urgent call for it?

A redeeming point in Cobden's futile peace crusade was that he laid the blame of the war fevers on the right shoulders, namely, those of the people themselves. Referring to the part he took in the fourth Peace Congress—the one

held at Manchester in the panic year (1853),—his biographer says of him—

> He still nursed the honourable belief that the spread of sound information and reasonable arguments would suffice to stem the tide of national delusion.

But unfortunately the people were then in no mood to listen to sound information and reasonable arguments. When Cobden realised this he had the moral courage to tell them the truth, and the speech in which he did it is one of the finest episodes in his public life.

> I will [he said] never truckle so low to the popular spirit of the moment as to join in any cry which shall divert the mass of people from what I believe should be their first thought and consideration—namely, how far they themselves are responsible for the evils which may fall upon the land, and how far they should begin at home before they begin to find fault with others.

Might not a similar rebuke be addressed to-day to the Italian people who cheered so enthusiastically the declaration of war against Turkey?—to the German people who have allowed their Government to drag them to the brink of war with France?—to the Americans who rose as one man to take vengeance on Spain for a crime of which she was afterwards discovered to be innocent? It is still the people who make the wars, the same as they did in Cobden's day, and as they will continue to do in spite of all the fine cosmopolitan

sentiments that can be talked either by Free Traders or Socialists.

As for the Socialists, their *rôle* in the coming political upheaval is evidently to be a peculiar one. Their cosmopolitanism is, of course, of a very different breed from that of the Manchester Peace Society men, but whether it will be more successful as a check on war has yet to be seen. A recognised organ of Socialist anti-militarism, and perhaps the most authoritative, is the Social Democratic Congress. It met this year at Jena, almost within a stone's-throw of a world-famous battlefield. And while it sat new history was being made in the German capital —history which more than once trembled on the verge of war.

During this crisis the Socialists gave out a remarkable story to the effect that at the height of the crisis their leaders were confidentially invited by the French and German Governments to assist in calming a warlike agitation which threatened to break all bounds. Be this as it may, their Congress was certainly in session when the September panic broke out on the Berlin Bourse, and the scare among savings bank depositors was spreading all through Germany. Whether their proceedings aggravated or ameliorated the situation will always be a subject of controversy. Something, however, seems to have happened behind the scenes which caused a more than usual amount of division among

them. Their annual protest against war was on this occasion specially aimed at the Morocco crisis. As put forward on the 11th September by the party leaders, it read thus:—

The German Social Democratic Congress sitting at Jena protests urgently against any attempt to provoke a man-murdering war between civilised peoples like the French, English, and German,—a war which would inevitably become a world-wide one and end with a universal catastrophe. The only persons who on this or on the other sides have an interest in egging on the various peoples against each other are, besides colonial pirates, chauvinists afloat and ashore who are thirsting for promotion and distinction, and manufacturers and purveyors of war material of all kinds, who would make enormous profits from a war at the risk of hundreds of thousands of men being annihilated. The Congress expects that the German working classes in particular will employ every means to prevent a world-wide war.

"The sitting was marked by violent arguments between delegates and the leaders of the party," is the significant comment of 'The Times' correspondent on the above fiery declaration against war. The leaders were accused of derelictions of duty in connection with the Morocco question. Herr Ledebour declared that they had allowed it to be supposed that the German Social Democrats hesitated to join in the protest of the proletariat of other countries against the Morocco adventure.

On the following day the resolution was further

discussed and adopted; but the principal speech on the debate, that of Herr Bebel, took the wind out of it. He said that,

> with the course which the Morocco crisis has taken—a result especially of the intervention of England—the whole European situation has assumed a totally new appearance. At one stroke a whole series of ideas and tendencies which some months ago occupied our attention both within and without the Reichstag has been, so to speak, scattered to the winds. The question of disarmament and all that is connected with it will no longer disunite us. That question is put aside. It is not disarmament that is henceforth to be the order of the day in Europe, but increase of armaments, both by sea and land. We are moving toward a situation which, according to my conviction, will not and cannot end otherwise than with a great catastrophe.

This alarmist speech gave a rude shock not merely to the Social Democratic Congress but to all Europe. It intensified the prevailing anxiety as to the slow progress of the Morocco negotiations. It may well have upset the negotiators themselves to such an extent that some kind of a protest against it may have been deemed necessary. This may have been sent directly or indirectly to Herr Bebel, and thus have furnished groundwork for the legend that the Socialists had been appealed to for help in allaying the war panic.

Assuming that some sort of an appeal was actually made, its importance would depend on

the motive with which it was made. If it had been simply a protest against Herr Bebel's violent harangue at the Congress, it might not have a very special significance. On the contrary, if it were a confidential request from the two Governments not to embarrass the course of the Morocco negotiations, it would be quite a novel incident in diplomatic history.

As to the power of the German Socialists to exercise a certain amount of restraint on the foreign as well as on the domestic policy of the Empire, there can no longer be the slightest doubt. If they were a solid unit against war and war expenditure, they might even be strong enough to dictate to their War Lord himself, but they are as disunited as our own anti-militarists. If they had to choose between their duty to the Empire and their duty to the proletariat, a majority of them would in all probability be Germans first and Socialists next. In making their choice, they would no doubt be largely influenced by the fact that if they hesitate in their duty to the Empire it can promptly enforce its claim on them, while the claims of the proletariat are purely sentimental. No recognised authority has yet attempted to define them, or to indicate in the vaguest manner where they begin and where they leave off.

Nationality as a factor in world politics may have been weakened to some extent by the new doctrines of cosmopolitanism, internationalism,

proletarianism, anarchism, and class war, but it is still a much stronger force than any of its younger rivals. Patriotism and militarism have vast organisations behind them, against which Socialism can as yet bring only untrained, unarmed, and quarrelsome idealists.

SUMMARY OF CHAPTER XXV.

What moral effect is the study of military finance likely to have on the prevailing war tendency of the age? The terrific cost of preparing for war should be the strongest argument against it. The public regard war as a lottery with some big prizes in it as well as many tragic blanks. They will be hard to convince that it is an illusion. Mr Norman Angell's thesis that "in the modern world it is impossible by successful war to derive any profit commensurate with the cost involved," is a meaningless generalisation. Apply it to any particular case of possible war now pending, and it will be found to have no practical weight or influence. If the Germans make up their minds that their national ambitions are worth fighting for, why should a disputable economic thesis stop them? The historical wars which made the world what it is had quite other motives than profit. To talk of profit in connection with Queen Elizabeth's defence of Protestantism, Cromwell's fight for the Commonwealth, the Revolution of 1688, or Pitt's struggle to free Europe from the yoke of Napoleon, is too utterly incongruous. And the great causes that men will fight for regardless of profit are not all gone. Mr Norman Angell's lurid picture of the financial horrors of war is lop-sided. Against it should be set the remarkable examples of rapid recuperation. France and Prussia were both more prosperous than ever within two years of the close of the war of 1870. Mr Norman Angell's conclusions as to the restraining influence on militarism of to-day's complex international finance are purely imaginary. International finance can work both ways in a war crisis, and no one can safely predict in a given case how it will work. It may precipitate a panic or it may steady the money markets, as it is obviously doing in the present very complex war crisis. The gospel of the war illusion should not be preached in Downing Street but in Berlin. The proper subjects for it are the Prussians, the most successful war-makers of the present day, and therefore likely to be the last to give it up. Cabinet Ministers — Sir Edward Grey, Mr Winston Churchill, and Lord Loreburn — all preaching the "Great Illusion" is an amazing and not a reassuring spectacle.

MODERN WARS AND WAR TAXES

PART VI. THE ANTI-MILITARISTS

CHAPTER XXV. MR NORMAN ANGELL'S GREAT ILLUSION DISILLUSIONED

Our review of the financial factors in the military situation of Europe has reached its limit. If not absolutely complete, it may claim to be more comprehensive and systematic than any that has been previously offered to English readers. Many different conclusions will doubtless be drawn from the long array of facts and figures set out.

The main question is what moral effect they are calculated to have on the national animosities, jealousies, and rivalries which are the most prolific sources of war. Very little immediate effect, it is to be feared. Angry passions are running too high just now to pay much attention to war taxes or any other form of blood-money. But later on, when they cool down, the financial exhaustion to which the figures unmistakably

point must have a sobering effect. Not only statesmen and legislators but the man in the street will see that if the armament craze is going to bankrupt itself at no distant date, it may as well be stopped soon as late.

Come what may, it is not the horrors of actual war that will stop war so much as the terrific cost of getting ready for it. War itself offers tempting prizes along with disastrous risks. But the 450 millions a-year spent on armaments which do no fighting is dead loss for everybody. Therefore I conclude that if war is to be killed in our time it will be by the sheer weight of its own machinery. Armaments rust in peace and produce nothing. In war they have at least a sporting chance to win something. No moralist will ever convince an average European community that war is a great illusion and nothing else. They have been taught to regard it as a lottery—the greatest of all human lotteries,—and they know that there are big prizes in it as well as tragic blanks. That idea it will be very difficult to shake out of them.

Mr Norman Angell's proposition that "it is in the modern world impossible by successful war to derive any profit commensurate with the cost involved" may sound well on a platform or in a newspaper article, but it is an utterly inadequate and misleading definition of the true issue. As a declaration against war in general it might pass, but it does not touch the particular kinds of war

which the modern world has most reason to be afraid of. These will not be wars for "profit." For that matter, who ever heard of wars undertaken for the mere sake of what could be got out of them? Even the robber barons with whom Mr Norman Angell politely compares the diplomatists and statesmen of the present day had sometimes higher ideas than profit. To associate such a mercenary thought with the religious wars of the sixteenth century or the civil wars of the seventeenth century or the colonial wars of the eighteenth century is simply to put oneself out of court on the subject.

Neither Queen Elizabeth nor Cromwell nor William the Third nor the elder Chatham nor his son William Pitt regarded war as a matter of profit and loss. Neither did the people who sacrificed life and property in these historical wars take that Cobdenite view of it. They fought for objects compared with which money was a feather in the balance. Their only thought about money was how to get it. They were often driven to desperate straits for it, but it was always a secondary consideration with them.

Mr Norman Angell calmly assumes that in his modern world there can never be any more such life-and-death struggles between nations,—that in future no international differences can possibly arise which cannot be reduced to financial and commercial equations. But he may be mistaken in supposing that the race of Cromwells and

William the Thirds and Queen Elizabeths has completely died out. Some of them may yet survive in other countries if not in our own. The causes for which they and their people are prepared to make the last and greatest of sacrifices may not be entirely exhausted, and while any of these survive it must be the climax of short-sightedness to talk about war as a mere question of pounds, shillings, and pence.

But even from that low and narrow point of view Mr Norman Angell's "Great Illusion" is itself an illusion — a mirage and a Will-o'-the-wisp. In portraying the financial effects of war he thinks only of the first shock. He sees nothing but Bourse panics, disorganised trade, closed factories, crowds of unemployed, food famines, and general misery. What he does not see is that these are not permanent but temporary results,—that by degrees they work themselves out and order returns again. It may even be a higher and better order than before. There may also be an aftergrowth of increased prosperity and power. Witness the marvellous recuperation which France achieved within a couple of years from the catastrophe of 1871. Witness, too, the remarkable economic development which the new German Empire exhibited in the same period.

As a counterpart to Mr Norman Angell's lurid picture of Bourse panics, the famous indemnity loan raised by France in 1873 is worth recalling. Under the Treaty of Versailles the French Govern-

ment had until 1875 to complete the payment of the two hundred million sterling indemnity exacted by the victors. But in 1873 the nation had so far recovered from the ravages of the German invasion and of the Commune that it was resolved to make a supreme effort to anticipate payment of the remaining instalments and have French soil once more free. A patriotic loan of 140 millions sterling—three and a half milliard francs—was authorised by the Assembly, with only four dissenting voices. It was issued forthwith, and proved a magnificent success. Even the matter-of-fact 'Annual Register' cannot describe it without catching a spark of the enthusiasm which it excited throughout Europe.

When the appointed day (of issue) came the excitement in Paris was intense. Not only the Bourse, the Petite Bourse, and the Boulevards were crowded, but at each Mairie and office between two and three hundred applicants — gentry, small traders, and workmen in blouses—pressed forward to invest their savings. Nor even in the commercial quarter of Belleville did the populace seem less eager than elsewhere to testify their faith in the promises of the Government. On the 30th July M. Goulard was able to announce to the Assembly that the subscriptions had amounted not to three and a half milliards of francs, the anticipated sum, but to forty-one and a half milliards, or nearly twelve times as much, while the returns had still to come in from various places. The amount finally recorded was forty-three milliards, or 1720 millions sterling; while the greatest part of this enormous subscription was furnished by the French themselves, whose hoards came forth more readily on this

occasion than when, invited by the imperial loans of Napoleon III., a vast amount was offered by both England and Germany. The German subscription alone would have sufficed to cover the original demand.

The Finance Minister proceeded to moralise appropriately on these gratifying facts, though not at all in the style that Mr Norman Angell would have expected. Instead of drawing a gloomy picture of France, bleeding and exhausted after two years of invasion and insurrection, he congratulated the Assembly on the national resurrection that had taken place. It sounds incredible that the France of 1871 could in 1873 be spoken of in such glowing terms as the following:—

> A nation like ours [said M. Goulard], showing the faith she has in herself, is justified in counting on the future. She has a right to consider the severe lesson she has received as the expiation of her faults and a surprise of fortune; but, thank Heaven, France is not condemned to see in it a sign of decadence. . . . Let us not forget that it is to France pacific, laborious, and just—to France firmly devoted to ideas of order and wise liberty—that our fellow-citizens and foreigners have given testimony of their absolute confidence. Despite our errors and misfortunes, the world has not ceased to believe in us.

Germany's recovery from the war was no less rapid and complete than that of France. In 1873 conqueror and conquered were both sitting once more in the sun. In November of that year the Prussian Minister of Finance, Herr

Camphausen, indulged in the following cheerful retrospect:—

> The year 1872 has been unprecedented for the largest surplus revenue ever known in this country. From a financial point of view, we never had a more prosperous era than the past twelve months. The accounts of 1873 would present an almost equally brilliant result. There was every prospect of the income not only coming up to his increased anticipation, but leaving a considerable surplus in his hands.

Such was the condition of Prussia in 1873, after she had fought two great wars and a small one within little more than seven years. She had invaded Schleswig-Holstein in 1864, Austria in 1866, and France in 1870. She had put more than a million men in the field, and had carried on military operations over one-half of Europe; but instead of crawling out of the struggle a financial wreck, as, according to Mr Norman Angell, she ought to have done, she emerged in the brilliant form above described by her Finance Minister, Herr Camphausen.

Let us now picture to ourselves a German statesman confronted with a really imperial issue —not a third-rate affair like Morocco, still less a matter of profit and loss,—what effect would Mr Norman Angell's gospel be likely to have upon him? Familiar as he would certainly be with every detail, military and financial, of the three campaigns of 1864, 1866, and 1870, would he put his trust in Mr Norman Angell or in Herr

Camphausen? Would he follow the teachings of German history or the prophesyings of an idealist? Even if he were favourably inclined toward the Norman Angell gospel, what sense could he make of its fundamental axiom that "it is in the modern world impossible by successful war to derive any profit commensurate with the cost involved"? No German statesman —or, for that matter, no sane statesman of any country—would deliberately go to war for profit. No such political ogre exists outside of Mr Norman Angell's imagination. But quite apart from profit or prestige or popular feeling, there are things for which a responsible statesman would hazard everything dear to a nation. In presence of such issues, talk about Bourse panics and disorganised trade would be sheer impertinence.

There have been, and there may again be, crises in the world's history in which the choice of nations will lie between temporary disorganisation and permanent ruin. In order to avert permanent ruin, a true statesman would in such cases risk all the financial and industrial perils which Mr Norman Angell's lurid imagination can conjure up. The safety of the State would be for him the supreme law, and not the safety of the Bourse. Such a crisis may be in store for the British people one day; and if it is, no amount of philosophising about the "economic interdependence of nations" will save us from it.

We are told that this "economic interdepend-

ence of nations dates mainly from the time Stock Exchanges became linked to telegraphy, and both to an international banking system." We are further given to understand that it is a source of strength, and at the same time a source of weakness, — two contradictory effects which the new apostle of peace makes no attempt to reconcile. He states that "it has added enormously to the wealth of the world," and consequently to the world's fighting power; but, on the other hand, this enormous wealth has become so liable to be upset and deranged by the least touch of war as to render war on a large scale a peril too great for either belligerent to face.

One can understand the lack of wealth being a powerful obstacle in war-making; but why excessive wealth should have a similar effect is difficult to see. In former times many a campaign had to be shortened and many a war had to be hurriedly closed because of an empty war-chest. That is quite a different thing, however, from being afraid to go to war lest it should upset a world-wide money market counting its wealth by thousands of millions. Surely it would be easier to manipulate these thousands of millions so as to keep the financial world moving, than it was in Pitt's time to make bricks without straw and to fight on an empty Treasury. After all, a Bourse panic is not an unmitigated evil. It implies the existence of

wealth, and the most demoralised kind of wealth must be better than none whatever.

So far from Mr Norman Angell's theory of the restraining influence of a complex international banking system on militarism being true, the very opposite conclusion would be more plausible, and I believe also more correct. Very possibly our next big war will play havoc at the start, both with banks and bourses, but after the first shock the financial machinery might soon be readjusted. Then its vast ramifications, its innumerable devices for utilising credit, and its world-wide network of exchanges, far from being a hindrance to the operations of war, would greatly facilitate them. The true financial problem in war is not how it begins but how it ends. Doubtless Prussia had many tight corners to negotiate during her three wars of 1864, 1866, and 1870, but she came out all right in the end; and she will be apt to estimate her chances in future campaigns not by the initial sacrifices she had to make, but by the brilliant success which crowned them,—not only military success but financial and economic.

If Mr Norman Angell could convert the Germans, and especially the Prussians, to his gospel that war is all loss and no profit — all sacrifices and no advantage,—he would be conferring a boon on humanity. It is they more than any other nation who have the peace of the world in their hands. Unfortunately for the

world, they are the last people he is likely to convert. The Prussians have been the most fortunate and successful war-makers of modern times, consequently they are unlikely to be the first to give it up. It was ironical of Mr Norman Angell to begin his disillusionising process in Downing Street instead of at Berlin. Downing Street was only too ready to fall into his arms.

Of late our Foreign Office appears to have looked more to Mr Norman Angell than to anybody else for inspiration and guidance. Our Foreign Secretary, Sir Edward Grey, who set on Mr Lloyd George to crow at the Germans and provoke the most gratuitous war scare of recent times, is an avowed believer in the new peace gospel of the "Great Illusion." He seldom misses an opportunity to advertise it as the future hope and salvation of the world. Already he and his martial colleague, Mr Winston Churchill, are predicting a Carnegie millennium. If they really believe in it, the shortest way to bring it about would be for Sir Edward Grey to resign his superfluous post at the Foreign Office to the Pittsburg pacificator. They have already hobnobbed together at the National Liberal Club. In June last (1911) the Club entertained Mr Carnegie; and Sir Edward Grey, in proposing the toast of the evening, thus expounded the new policy:—

It was often suggested that objection to the pressure of expenditure upon armaments arose from the feeling

that the objector's country was breaking down under the burden. That pressure was increasingly felt in the great countries of Europe, and, he thought, more heavily in some of them than in this country, thanks to our fiscal system and to our recent adjustments of taxation. But there was another objection, founded on the growing aspiration in democratic European countries for more security and a general raising of the level of life. It was possible that even in the most successful war the victor might lose more than he gained. Financial and economic consequences were going to be felt with increasing severity beyond the two countries immediately concerned. That was a stronger argument than the appeal based on the horrors of war, for against that appeal was usually placed the other appeal to sentiment and emotion arising from the accounts of the courage and self-sacrifice of risking one's life for one's country. It was not peace but sloth that undermined character, and individual character had not deteriorated, because individuals now depended for protection of life and property upon the police, and had passed out of the feudal ages, when people had to fight for their possessions at least once a-year.

Sir Edward Grey must have presented each of his colleagues in the Cabinet with a copy of the "Great Illusion," and to have impressed on them his belief that it was a new and easy cure for war fever. One after the other they began to quote it, and to suggest to their constituents that if everybody would read it and act upon it, there might soon be an end to wars and war taxes. Mr Churchill, shortly before he went to the Admiralty as the latest of our long, long list of naval reformers, preached the new gospel of self-

destroying war at Dundee. In his latest speech there (October 3, 1911) he thus apostrophised the "international peace influences" proclaimed by Mr Norman Angell, but so far invisible in the present war crisis:—

A strong tremor of unrest has passed through the gigantic structure of fleets and armies which impress and oppress the civilisation of our time. The ponderous machines seem to press and grind against each other, and force certainly does not play a less prominent part either in the policy of nations or in the equipoise between them. We must perceive, however, that the nations of the twentieth century, when these moods take them or their rulers, awake to find themselves in a very different position from that of the States of even fifty years ago. They find themselves bound together, interlaced and interwoven one with another, by a network of trade interests, of commercial transactions, of intercommunication, of reciprocal insurance and of friendly connection. They find themselves also standing upon a dizzy and precarious platform of international credit and complex artificial industry—a platform which, were it to collapse or to be violently overturned, would produce consequences which no man and no monarch can foretell.

In the skilful hands of Mr Churchill Mr Norman Angell's millennial squib developed into a potential bombshell. Happily there is no sign as yet of an explosion, though several matches have been applied to it in various parts of the world.

The next Minister to fall under the spell of the patent war-destroyer was the Lord Chan-

cellor. In a speech at the Sheffield Cutlers' Feast, 17th October 1911, Lord Loreburn thus took up the hymn of the Norman Angell choir:—

> The nations of the world were rapidly becoming more intimately and closely connected the one with the other by bonds of commerce, so that they were more dependent upon one another. They had closer and more frequent communication with one another, and they stood to lose more heavily by any of the catastrophes which were entailed by a state of war. Rudimentary States could fight with comparative impunity, but great civilised States embraced a society socially and industrially so complete that all those who governed them were well aware that they were most vulnerable, even to domestic troubles, and that they might almost be obliterated in the case of a protracted and unsuccessful war. These considerations were more and more coming to the attention of statesmen all over the world, and he believed that they now were, and would be more and more each day, a factor for the preservation of peace.

All of which are admirable sentiments in their place, and may serve as a good excuse for cutting down next year's Army and Navy estimates, but as the basis of a foreign policy they are decidedly illusory. The Cabinet speeches above quoted may well have raised many a laugh in certain quarters on the Continent where the millennium is not believed to be yet in sight. Whatever Continental opinion of them may be, they are hardly calculated to have a reassuring effect at home. One seems to hear in them echoes of the ill-omened peace Cabinet of 1853, which, with the most angelic intentions, let loose

the dogs of war and started the military rivalry that has turned Europe into an armed camp. If there were any danger of a British Government at the present day repeating the disastrous errors of the Aberdeen-Gladstone Cabinet of 1853, then the outlook for the British Empire would be dark indeed. The greatest, the most fatal error now possible for British Ministers to commit would be to take Mr Norman Angell seriously. His gospel is beautiful in itself, but its practical value will depend on who makes the first trial of it. If the Germans will oblige, good and well. If not, we must beware of it, and the less our Cabinet Ministers say about it in future the better it may be for us all.

THE END.

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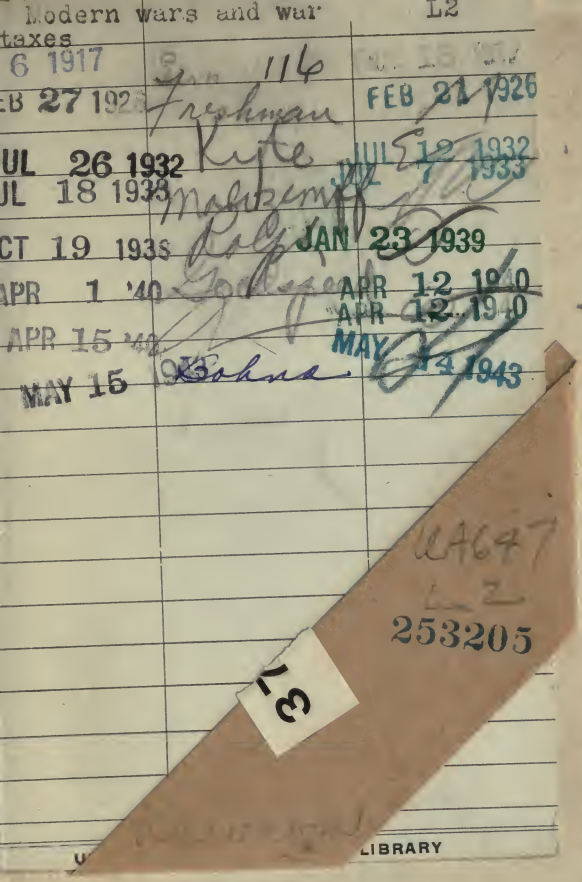
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